

TAB 240

Judy G. Grastorf

05/29/2001 04:51 PM

To: Andrew Plunkett/US/OGC/PwC

cc:

Subject: AHERF- Recent Discussions

----- Forwarded by Judy G. Grastorf/US/ABAS/PwC on 05/29/2001 04:55 PM -----

To: Jay Brodish/ABS/Price Waterhouse@Price Waterhouse-US, Erica Baird/OGC/Price Waterhouse@Price Waterhouse-US, Ben Korbly/ABS/Price Waterhouse@Price Waterhouse-US, Mel Hope/ABS/Price Waterhouse@Price Waterhouse-US

cc:

From: Jim Stalder

Date: 10/10/98 09:47:04 AM

Subject: AHERF- Recent Discussions

For the record, the following meeting/ discussions have taken place over the past few days:

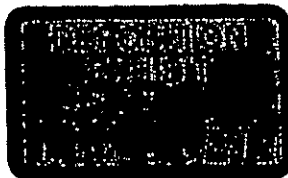
1. On Thursday, Oct. 8, 1998 Ben Korbly and I met with the following individuals over lunch at the Duquesne Club (in a private suite):

*David Barnes	Chairman of Audit Committee
*Ira Gumberg	Member of Audit Committee
*Chuck Queenan	Kirkpatrick & Lockhart
*David Murdock	Kirkpatrick & Lockhart
*David McClenahan	Kirkpatrick & Lockhart

In general, we set forth and discussed the agenda items which had been previously discussed with Barnes last Monday morning, placing significant emphasis on the SAS 82 communication requirements and the recent "findings" of fact from within the AHERF financial organization regarding the "reserve accounting". Considerable attention was also focused on the Mellon letter regarding the endowment accounting. We gave a copy of the Mellon letter as well as an excerpt from SAS 82 to the lawyers. Ben agreed to provide the lawyers with a copy of several requested items. The meeting concluded with our strong suggestion that the fact finding continue in earnest next week so as to permit us to be more responsive to the questions which must be answered. We made it clear that to accomplish this objective, we had to have the full cooperation of the key financial people. Ben and I exited to permit Barnes to discuss these matters with counsel.

2. On Friday morning, I received a call from Barnes requesting that I summarize our "needs" (to proceed forward expeditiously) on a single piece of paper such that he could use it as a memory jogger for a meeting he was going to have at noon with Sanzo and Dionisio. I drafted such, cleared it with Ben and faxed it to Barnes in time for his meeting.

3. Barnes called me around 2:00 to confirm that he had met with Tony and Joe and made it very clear to them that resolution of the open issues was a top priority. He instructed that we proceed full steam ahead with the objective of being ready for a meeting with the Audit Committee the week of Oct. 19. (We had suggested in our earlier note to him that he attempt to schedule the meeting as soon as possible to get it on everyone's calendar). Mel- David made it very clear that if we encounter any delay at all, we should contact him immediately and he will jump in and get things back on track.



CL 215770

4. Lee Power (lead counsel to the bankrupt estate) called shortly after my discussion with Barnes. He explained that his office had just received "a very nasty call" from four SEC lawyers. He explained that he did not have his files with him and asked that I refresh his memory as to the four items that were on the table at the last Audit Committee meeting. He mentioned that he envisioned the need for a sit down, face to face, meeting with the SEC and suggested that Joe and I be present. I made it clear that (a) I was not the right guy (we agreed that it would probably be Ben) and (b) that any participation on our part would be with the advice and approval (and perhaps participation) of our counsel. I gave him the telephone numbers of Messrs. Barron and Korbly. I informed him of our meeting with Barnes and of fact that Mr. Barron was in discussions with the SEC.

5. While in an "update" discussion with Ben, I received a call from Frank Barron

REDACTED

6. Joe Dionisio called and asked to confirm that the \$28 M discussed with Barnes was the same \$28 M that was on the table with the Audit Committee last month. I confirmed that, to our knowledge, it was but that it was the recent revelations as to the recording thereof that were most disconcerting. I also mentioned that it remained unclear how the \$28 M related to the \$14M which was on the "net effects" schedule at the time the accounts were cleared. We discussed the commitment that has been made regarding the "no holds barred" effort to be made next week in preparation for a meeting with the Audit Committee the following week. Like Barnes, he pledged his full support for the effort and instructed that we contact him immediately if the process gets delayed in any way.

7. Ben and I then discussed this matter with Rob Selpelic, the senior manager on the ground at AHERF to request that he make certain that the staffing is in place to get the job done next week, at least to the maximum degree possible given the volume of data to be reviewed. He will pursue this with Mel immediately. Ben agreed that he would stay on top of the process throughout the week.

Sorry for the length. Obviously, a lot happened yesterday.

CL 215771

TAB 241

**ALLEGHENY HEALTH, EDUCATION & RESEARCH FOUNDATION
FINANCE AND AUDIT COMMITTEE
Pittsburgh, Pennsylvania**

A meeting of the Finance and Audit Committee of Allegheny Health, Education and Research Foundation was held on Wednesday, October 28, 1998, at 12:00 noon in the Board Room of Allegheny University Hospitals-Allegheny General, Pittsburgh, Pennsylvania. The meeting was called pursuant to notice duly given to each member of the Committee. A copy of the notice is appended to the original minutes of this meeting. The following individuals were present:

Members Present

J. David Barnes
Douglas D. Danforth*
Ira J. Gumberg
Robert B. Palmer*
Randall L.C. Russell, Ph.D.

Other Invitees

Frank Barron
(Cravath, Swaine & Moore)
Joseph D. Dionisio
Carol Gordon
Mel Hope
(PricewaterhouseCoopers)
Ben Korbly
(PricewaterhouseCoopers)
David L. McClenahan, Esq.
(Kirkpatrick & Lockhart)
Charles P. Morrison
Charles J. Queenan, Esq.
(Kirkpatrick & Lockhart)
Anthony M. Sanzo
Wendy Smith, Esq.
(Kirkpatrick & Lockhart)
James C. Stalder
(PricewaterhouseCoopers)
Andrew E. Thurman, Esq.
W. P. Snyder III

Members Absent

Harry Edelman, III
Paul D. Neuwirth

Invitees Absent

Lee D. Powar, Esq.

* Via Telephone Conference

I. Opening of Meeting

The meeting was called to order by J. David Barnes, Chairman. Andrew E. Thurman, Esq. maintained the minutes. The Chairman declared that a quorum was present and the meeting was competent to proceed.

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FINANCE AND AUDIT COMMITTEE

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II. Additions to the Agenda

Mr. Barnes noted that there were no additions to the agenda.

III. Approval Items

A. Minutes from AHERF Finance and Audit Committee Meeting Held on August 27, 1998

Mr. Barnes noted that the minutes were presented for review by the Trustees and approval would be deferred until the next meeting.

B. Minutes from the AHERF Finance and Audit Committee Meeting Held on September 1, 1998

Mr. Barnes noted that the minutes were presented for review by the Trustees and approval would be deferred until the next meeting.

IV. Information and Discussion Items

A. Report from PricewaterhouseCoopers Regarding Fiscal Year 1997 Audited Financial Statements and Related Matters

Mr. Barnes began the discussion with introductory comments regarding discussion items for the meeting, as follows:

- Restatement of the Fiscal Year 1997 financial statements, making possible the A-133 filing requirements
- Discussion of the AHERF relationship with PricewaterhouseCoopers
- Review of events that led to the present situation

Charles Queenan provided the framework for the discussions with PricewaterhouseCoopers ("PWC"), noting that discussions would be held with PWC and its attorneys in order that appropriate legal advice could be given to

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FINANCE AND AUDIT COMMITTEE

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Allegheny Health, Education and Research Foundation ("AHERF") by Mr. Powar and to individual AHERF trustees by Kirkpatrick & Lockhart. He further noted that questions to AHERF legal counsel should be addressed during Executive Session. Two specific points were noted in regard to PWC: (1) the firm is possibly a target of the Securities & Exchange Commission (SEC) and possibly of civil litigation, which puts them in a conflicted situation, and they would have difficulty issuing a "clean" accounting report, and (2) if they have found improprieties, they would have a difficult time relying on any certifications AHERF personnel gave them. If they have any impropriety, they have an obligation to report it to AHERF.

The representatives of PWC joined the meeting and were introduced to those present.

A-133 Filing Requirements

Mr. Barnes noted that discussions with PWC in the September 1 meeting emphasized the reissuance of the Fiscal Year 1997 financial statements in order that the A-133 filing requirements could be fulfilled. Although it was hoped that this could be concluded within one month's time, AHERF personnel have been concentrating on matters relating to the sale of the Philadelphia hospitals and the report has not yet been concluded. James Stalder noted that PWC has been working to resolve the issues originally introduced during the meeting of September 1.

Disclosure Requirements - SAS 82

Mr. Stalder discussed the disclosure requirements of SAS 82 and the obligation to advise the Committee of the latest findings. He then updated the Committee of the latest findings and thorough discussion followed.

Status of Restatement - Transfer of Reserves/Acquisition Accounting

Ben Korbly commenced discussion regarding reserves established in connection with the Graduate acquisition of November 1996 as well as entries booked in April and June 1997. Thorough discussion followed.

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Status of Restatement - Rabbi Trusts

Mr. Korbly noted that trust assets (known as Rabbi Trusts) were established in connection with unqualified retirement accounts and executive benefits. In June 1997, there was no requirement to show the Rabbi Trusts on the balance sheet. A determination needs to be made as to whether the treatment of the Rabbi Trusts on the accounting statements were appropriate.

Status of Restatement - Endowment Funds

Mr. Korbly stated the matter of the Lockhart funds has been discussed and that a final legal opinion has not yet been received. Mr. Dionisio reported that the Committee reviewing this matter in the East has suspended their effort because they have not received funding approval to engage a law firm or accounting firm to review the matter, and that in the West, another Ad-Hoc Committee reviewing endowment funds has chosen a law firm and an accounting firm, and is in the initial stages of their review. A report will be issued on Western Region endowments funds, and the Lockhart funds in particular.

Status of Restatement - Intercompany Accounts

Mr. Korbly noted that intercompany accounts relates to supplementary financial data rather than consolidated financial statements. Mr. Stalder noted that there was no lack of integrity in this change and inasmuch as the bondholders knew of the matter, it was not an issue.

Status of Restatement - SDN Accounting

Mr. Korbly noted a review was made of the accounting in the SDN entity, and it would appear that SDN is a holding company for acquisitions which were made in a series of events. While there is a minimum amount of financial documentation, it is believed that the financial records are adequate. Mr. Korbly noted that while the SEC may decide to investigate SDN, PWC is satisfied with the transactions that were processed through SDN. Mr. Sanzo asked legal counsel whether the Finance and Audit Committee or any current officers of the corporation have management responsibility for SDN. Mr. Thurman replied that

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the exact answer will require a further review, however, based on the review made at this time, the board of AHERF, or its officers or management have no responsibilities toward SDN.

Path Going Forward/Issues

Mr. Barnes noted that PWC has spent a lot of time reviewing events that led to the issuing of the Fiscal Year 1997 financial statements, and that further investigation was necessary. Mr. Queenan discussed the parameters of such an investigation, and noted the investigation should be conducted by counsel to AHERF.

Executive Session

The offer of Executive Session was made to the representative of PricewaterhouseCoopers, and the offer was declined.

The offer of Executive Session was made to management, and the offer was accepted. The representatives of PricewaterhouseCoopers were excused from the meeting.

V. Adjournment

There being no further business, the meeting was adjourned at 2:55 p.m. as the Executive Session began.

Respectfully submitted,



Andrew E. Thurman, Esq.

AET:cur

NOTED ATTACHMENTS: Notice of Meeting

TAB 242

In The Matter Of:

*AHERF v.
PRICEWATERHOUSE*

THOMAS O'BRIEN
October 16, 2003

LEGALINK MANHATTAN
420 Lexington Avenue - Suite 2108
New York, NY 10170
PH: 212-557-7400 / FAX: 212-692-9171

O'BRIEN, THOMAS



LEGALINK®

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<p style="text-align: right;">Page 85</p> <p>1 the board?</p> <p>2 A. Yes.</p> <p>3 Q. And I think you've told us that although you</p> <p>4 can't recall specifically, maybe, the date or</p> <p>5 the time of reviewing Exhibit 1661 and 1653</p> <p>6 which contain the audited financial statements</p> <p>7 for 1996 and 1997, you do believe that you</p> <p>8 reviewed them when you received them?</p> <p>9 A. Yes.</p> <p>10 MR. FRIESEN: Wait. Objection. 1653</p> <p>11 contains --</p> <p>12 MR. SHAPIRA: A draft.</p> <p>13 MR. FRIESEN: -- a draft of the --</p> <p>14 MR. JONES: I understand. I'll</p> <p>15 change that.</p> <p>16 BY MR. JONES:</p> <p>17 Q. You do recall that you received the audited</p> <p>18 financial statements for fiscal year 1996 and</p> <p>19 fiscal year 1997?</p> <p>20 A. As I said, I recall that I did. I can't say</p> <p>21 that I recall that I did, other than I know</p> <p>22 that if they were in the packet, I looked at</p> <p>23 them.</p> <p>24 Q. You don't have any doubt that you got them, is</p> <p>25 that fair to say?</p>	<p style="text-align: right;">Page 87</p> <p>1 period they chose to report on</p> <p>2 Q. Did you at the time you received those clean</p> <p>3 opinions believe them to be important to the</p> <p>4 enterprise?</p> <p>5 A. Well, it was one of the most important things.</p> <p>6 I mean, when you're on a board like that, you</p> <p>7 look at a third-party provider of financial</p> <p>8 information, in this case audited information,</p> <p>9 and that gives you great comfort that a third</p> <p>10 party has reviewed the financial data and</p> <p>11 opined that it fairly presents the condition</p> <p>12 and represents the operations of the stated</p> <p>13 period.</p> <p>14 Q. Did you consider the third-party aspect of this</p> <p>15 review a check on internal financial</p> <p>16 management?</p> <p>17 MR. FRIESEN: Objection.</p> <p>18 A. Well, as in any full audit, they clearly review</p> <p>19 certain of the internal controls. There's no</p> <p>20 question about that.</p> <p>21 Q. And in your everyday job, you knew -- or as a</p> <p>22 consequence of your experience in your everyday</p> <p>23 job, you knew that audited financial statements</p> <p>24 were reviewed by people outside the</p> <p>25 organization itself as well, is that fair to</p>
<p style="text-align: right;">Page 86</p> <p>1 A. Yes. I'd say that's a legitimate statement.</p> <p>2 Q. Okay. And it was your practice, and you don't</p> <p>3 have any reason to believe you varied from it,</p> <p>4 to review the audited financial statements when</p> <p>5 you received them?</p> <p>6 A. That's correct.</p> <p>7 Q. And I understand that Exhibit 1653, for reasons</p> <p>8 stated in the package, was a draft set of the</p> <p>9 audited 1997 financial statements, but you</p> <p>10 don't have any reason today to doubt that you</p> <p>11 would have reviewed that draft when it was</p> <p>12 forwarded to you?</p> <p>13 A. If it was forwarded to me, I'm sure I did.</p> <p>14 Q. And when you received those financial</p> <p>15 statements and, in both instances, ultimately</p> <p>16 the clean opinions the audit report contained</p> <p>17 within them, what did you understand that to</p> <p>18 mean?</p> <p>19 A. It means, as any clean opinion does, that, to</p> <p>20 the best of their ability, the auditors have</p> <p>21 reviewed the financial data for the period so</p> <p>22 stated, reviewed the internal controls and the</p> <p>23 integrity of them, and that, in their opinion,</p> <p>24 those statements fairly present the financial</p> <p>25 condition and the financial results of whatever</p>	<p style="text-align: right;">Page 88</p> <p>1 say?</p> <p>2 A. I'm not sure I follow what you mean.</p> <p>3 Q. That -- I think what I mean to say is that when</p> <p>4 you were a member of the AHERF board, you</p> <p>5 understood that the audited financial</p> <p>6 statements that you received and reviewed were</p> <p>7 also made available to parties outside of</p> <p>8 AHERF, for instance, creditors?</p> <p>9 A. Oh, certainly. Yes.</p> <p>10 Q. And that they reviewed and relied upon those</p> <p>11 statements as well?</p> <p>12 A. And bond agencies and, you know, investment</p> <p>13 bankers and so forth and so on.</p> <p>14 Q. And those various parties you knew to receive</p> <p>15 and review those financial statements and rely</p> <p>16 upon them at the time they received them?</p> <p>17 A. Certainly.</p> <p>18 Q. So that the audited financial statements were</p> <p>19 important internally for management purposes</p> <p>20 and externally to others, at least as you</p> <p>21 understood it at the time?</p> <p>22 A. That's correct.</p> <p>23 Q. Did you use the audited financial statements</p> <p>24 that you reviewed for fiscal year 1996 and</p> <p>25 fiscal year 1997 -- and for the latter, either</p>

22 (Pages 85 to 88)

<p style="text-align: right;">Page 89</p> <p>1 in draft or final form -- to help you gauge the</p> <p>2 performance of the enterprise?</p> <p>3 A. Yes. I'd say that's a legitimate question,</p> <p>4 particularly the fiscal year 1997, seeing that</p> <p>5 they were cash flowing at a meaningful rate</p> <p>6 during that previous 12 months.</p> <p>7 Q. Let me ask you to flip quickly back to the 1996</p> <p>8 audited financial statements, and page 3 at the</p> <p>9 bottom of those which you'll find at Exhibit</p> <p>10 1661</p> <p>11 MR. SHAPIRA: What's the page number?</p> <p>12 MR. JONES: I'm sorry.</p> <p>13 THE WITNESS: 1661</p> <p>14 MR. JONES: It's Exhibit 1661, page 3</p> <p>15 at the bottom of the page</p> <p>16 BY MR. JONES:</p> <p>17 Q. That page presents the Consolidated Statement</p> <p>18 of Operations, is that right?</p> <p>19 A. I have 1661 here which is also page 55</p> <p>20 Q. No. I'm sorry. It was Exhibit 1661.</p> <p>21 MR. SHAPIRA: You want him to look at</p> <p>22 page 2, right?</p> <p>23 MR. JONES: Page 3, the Statement of</p> <p>24 Operations.</p> <p>25 MR. SHAPIRA: Right at the beginning</p>	<p style="text-align: right;">Page 91</p> <p>1 was a little over \$20 million, is that fair to</p> <p>2 say?</p> <p>3 A. That's correct</p> <p>4 Q. So the trend is up at least at year end --</p> <p>5 fiscal year end 1997?</p> <p>6 MR. FRIESEN: Objection.</p> <p>7 A. That's correct.</p> <p>8 Q. When seeing these financial statements and</p> <p>9 seeing the trend we just discussed, you used</p> <p>10 the information in the statements to help you</p> <p>11 gauge the financial performance of the</p> <p>12 enterprise and the financial ability of</p> <p>13 management to run the enterprise too, is that</p> <p>14 fair to say?</p> <p>15 A. That's correct. Yes. Um-hum.</p> <p>16 Q. You also, I think, testified that you recalled</p> <p>17 receiving at least quarterly internal financial</p> <p>18 statements, is that right?</p> <p>19 A. To the best of my recollection, we got those.</p> <p>20 There were interim statements. Quarterly, I</p> <p>21 presumed, but there were interim statements,</p> <p>22 most of which, as I say, I received and then</p> <p>23 also got updates at the AUMC meetings.</p> <p>24 Q. And do you recall ever receiving a quarterly</p> <p>25 internal financial statement -- strike that.</p>
<p style="text-align: right;">Page 90</p> <p>1 THE WITNESS: Right at the beginning.</p> <p>2 MR. SHAPIRA: Right</p> <p>3 BY MR. JONES:</p> <p>4 Q. And I think in response to questions by</p> <p>5 Mr. Friesen, you indicated that you did look at</p> <p>6 net income as a part of your review of the</p> <p>7 financial statements, am I right?</p> <p>8 A. Um-hum.</p> <p>9 Q. Is that a yes?</p> <p>10 A. Let me -- I was reading. I didn't hear you.</p> <p>11 Q. I'm sorry. I think in response to questions</p> <p>12 from Mr. Friesen, you said you paid particular</p> <p>13 attention to the statement of operations and</p> <p>14 the net income line, is that correct?</p> <p>15 A. Yeah. One of the things, yeah.</p> <p>16 Q. And here we see the net income line has a</p> <p>17 figure of what? Before extraordinary item and</p> <p>18 change in accounting principle, the figure is</p> <p>19 six-and-a-half million dollars, roughly?</p> <p>20 A. That's correct.</p> <p>21 Q. And so in 1996, the audited financial</p> <p>22 statements reflected net income before</p> <p>23 extraordinary item and change in accounting</p> <p>24 principle of \$6.5 million, and I think that the</p> <p>25 figure in 1997 you and Mr. Friesen discussed</p>	<p style="text-align: right;">Page 92</p> <p>1 Do you recall ever receiving an</p> <p>2 audited financial statement that caused you to</p> <p>3 question the accuracy of an internal financial</p> <p>4 statement?</p> <p>5 A. I don't believe so</p> <p>6 Q. Did you use the audited financial statements as</p> <p>7 a part of the tools available to you to monitor</p> <p>8 performance of particular initiatives at AHERF,</p> <p>9 for instance, the acquisition strategies that</p> <p>10 we discussed earlier today?</p> <p>11 A. Well, I would say this: I would say that we</p> <p>12 weren't divorced from the realities that</p> <p>13 certain things were losing money and that there</p> <p>14 were negative trends in certain things, but</p> <p>15 when you looked at the audited financials and</p> <p>16 saw that they were still cash flowing in a</p> <p>17 meaningful way, that gave you comfort that</p> <p>18 while things weren't wonderful, they were</p> <p>19 clearly still operationally solid</p> <p>20 THE VIDEOGRAPHER: Excuse me. I have</p> <p>21 to change tapes. We are now going off the</p> <p>22 record. The time is 12:38 p.m.</p> <p>23 - - -</p> <p>24 (There was a recess in the proceedings)</p> <p>25 - - -</p>

<p style="text-align: right;">Page 93</p> <p>1 THE VIDEOGRAPHER: We are now going</p> <p>2 back on the record. The time is 12:39 p.m.</p> <p>3 BY MR. JONES:</p> <p>4 Q We're back on the record after a brief break,</p> <p>5 Mr. O'Brien.</p> <p>6 When you were a member of the AHERF</p> <p>7 board, did you expect Coopers & Lybrand to</p> <p>8 raise, either with the audit committee or with</p> <p>9 the board itself, any material misstatements in</p> <p>10 the financial statements presented for their</p> <p>11 audit that they became aware of?</p> <p>12 MR. FRIESEN: Objection.</p> <p>13 A Well, I would say, again, generically, in any</p> <p>14 board, I would expect the auditor to raise</p> <p>15 those kinds of issues probably through the</p> <p>16 audit committee, and then up to the full board.</p> <p>17 Q Would you also expect Coopers & Lybrand during</p> <p>18 this time period to have raised with the audit</p> <p>19 committee or ultimately the full board any</p> <p>20 intentionally misstatements they found in the</p> <p>21 statements presented for their audit?</p> <p>22 MR. FRIESEN: Objection.</p> <p>23 A Without question.</p> <p>24 Q Would you also expect Coopers & Lybrand, and</p> <p>25 did you while you were a member of the board,</p>	<p style="text-align: right;">Page 95</p> <p>1 fiscal year 1996 or 1997 financial statements</p> <p>2 presented for their audit were indeed</p> <p>3 materially misstated and that they were,</p> <p>4 therefore, going to issue an adverse opinion on</p> <p>5 those statements, would that have caused you</p> <p>6 concern?</p> <p>7 MR. FRIESEN: Objection.</p> <p>8 A Well, clearly.</p> <p>9 Q And for the jury, why is that such a concerning</p> <p>10 thing?</p> <p>11 MR. FRIESEN: Objection.</p> <p>12 A Well, you're obviously looking at, again, a</p> <p>13 member of the board or any other constituency</p> <p>14 where these things are used. You're looking to</p> <p>15 make sure that they are high integrity, and you</p> <p>16 base judgments on performance and risk, all</p> <p>17 those things.</p> <p>18 Q What kind of options does a board member and a</p> <p>19 board have when faced with these kinds of</p> <p>20 circumstances?</p> <p>21 MR. FRIESEN: Objection.</p> <p>22 A With what kinds of circumstances?</p> <p>23 Q When an auditor comes to the board or the audit</p> <p>24 committee and tells them that the financial</p> <p>25 statements presented for their audit were</p>
<p style="text-align: right;">Page 94</p> <p>1 to raise with the audit committee or the full</p> <p>2 board any concerns that Coopers & Lybrand had</p> <p>3 with the integrity or competence of financial</p> <p>4 management?</p> <p>5 MR. FRIESEN: Objection.</p> <p>6 A Absolutely.</p> <p>7 Q Why is that so important?</p> <p>8 A Well, I think it's, again, just prima facie.</p> <p>9 You know, it's obvious that's what the board</p> <p>10 hires outside auditors to do is, you know,</p> <p>11 fundamentally report on the integrity of the</p> <p>12 financial data which includes the integrity of</p> <p>13 the management that's preparing them.</p> <p>14 Q Did you -- strike that.</p> <p>15 Before the bankruptcy was</p> <p>16 announced -- and I think we talked a little bit</p> <p>17 about the fact that you learned about it</p> <p>18 through means you don't recall, but it must</p> <p>19 have been at or about the time of the</p> <p>20 bankruptcy. When you learned of it, and at any</p> <p>21 time before it, did you have any reason to</p> <p>22 question the accuracy of the audited financial</p> <p>23 statements presented to you?</p> <p>24 A No. Really, no. None.</p> <p>25 Q If Coopers & Lybrand had told you that the</p>	<p style="text-align: right;">Page 96</p> <p>1 indeed materially misstated and an adverse</p> <p>2 opinion is to be issued?</p> <p>3 MR. FRIESEN: Objection. Vague.</p> <p>4 A Well, I mean, speaking again on a generic</p> <p>5 basis, you would clearly -- the audit committee</p> <p>6 would clearly probably establish or the board</p> <p>7 would establish a special committee to review</p> <p>8 those allegations and determine whether they</p> <p>9 are correct or not and would get to the bottom</p> <p>10 of whether or not they are, in fact, correct.</p> <p>11 Q So you have the option of making inquiry?</p> <p>12 A Certainly.</p> <p>13 Q And indeed you also have the option of</p> <p>14 recharging the auditors to expand their</p> <p>15 procedures and scope, perhaps?</p> <p>16 MR. FRIESEN: Objection.</p> <p>17 A I mean, all of that would come from this</p> <p>18 special committee or whatever you would set up</p> <p>19 to look into those allegations by the auditor.</p> <p>20 Q Is engagement of additional consultants a part</p> <p>21 of the options that committee would have?</p> <p>22 MR. FRIESEN: Objection.</p> <p>23 A There would be all kinds of different options,</p> <p>24 but that -- it would be a full inquiry into the</p> <p>25 allegations. That's all I would say.</p>

24 (Pages 93 to 96)

TAB 243

IN THE UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF PENNSYLVANIA

THE OFFICIAL COMMITTEE OF
UNSECURED CREDITORS OF
ALLEGHENY HEALTH, EDUCATION
AND RESEARCH FOUNDATION

Plaintiff,

Civil Action No. 00-684

v.

PRICEWATERHOUSECOOPERS, LLP

Defendants.

EXPERT REPORT OF J. W. TILLET, JR.

NOVEMBER 12, 2004



J. W. Tillett, Jr.

In connection with my work on this assignment, I have reviewed and/or considered the following:

- C&L working papers (including CLASS files and materials from certain desk files) related to the performance of the audit of the consolidated financial statements of AHERF for the year ended June 30, 1997
- C&L working papers (including CLASS files and materials from certain desk files) related to the performance of the audits of the financial statements of AHERF and its affiliates for the year ended June 30, 1996
- Various C&L working papers related to the performance of the audits of the financial statements of AHERF and its affiliates for the year ended June 30, 1995
- Fiscal years 1992 – 1997 AHERF audited consolidated financial statements and the financial statements of its affiliates
- Various pleadings and written discovery documents
- Depositions and related exhibits in this matter
- Deposition of Amy Frazier in the matter of the Securities Exchange Commission v. William F. Buettner, Mark D. Kirstein and Amy S. Frazier
- 1998 Not-For-Profit Health Care Medians, Moody's Investors Service, August 1998
- Copies of audited financial statements of certain Pennsylvania health care entities for the years 1996 and 1997, collectively "The Pennsylvania Data"⁷
- Copies of audited financial statements of various for-profit health care entities for the years ended 1996 and 1997.
- Technical Reference Materials, relevant at the time, including the following:
 - AICPA Professional Standards, Volumes 1 and 2, various editions
 - FASB Current Text, Volumes I and II, various editions
 - FASB Original Pronouncements, Volumes I and II, various editions
 - AICPA Audit and Accounting Guide, Health Care Organizations, various editions
 - AICPA, Audit Risk Alerts, Health Care Industry Developments
 - AICPA Audit and Accounting Guide, Not-For-Profit Organizations
 - AICPA, Consulting Services Special Report 03-1, Litigation Services and Applicable Professional Standards
 - AICPA Technical Practice Aids and Statement of Positions
 - FASB EITF Abstracts, various editions
 - 1997 SEC Guidelines, Rules and Regulations, (Warren, Gorham & Lamont)
 - Accounting for Business Combinations, Interpretations of APB Opinion Nos. 16 and 17, Eighth Edition
 - Montgomery's Auditing, Eleventh and Twelfth editions
- Expert Reports of Mr. Berliner dated September 3, 2004 and Mr. Regan dated September 2, 2004 and documents and materials referenced within

⁷ Listing of Pennsylvania Hospitals considered [Tab 7].

- 1996 C&L Business Assurance Manual
- Various speeches by staff members of the Securities Exchange Commission

V. Background

AHERF, as the parent company, was composed primarily of not-for-profit related entities. For external reasons regarding debt, many of these entities were structured as obligated groups. Pursuant to a letter of arrangement dated April 12, 1996, C&L was engaged to perform audits of the consolidated financial statements of AHERF and the financial statements of various subsidiaries as of and for the year ended June 30, 1996. The subsidiaries included Allegheny General Hospital Obligated Group (AGHOG) and the Delaware Valley Obligated Group (DVOG).

C&L was engaged to perform an audit of the consolidated financial statements of AHERF as of and for the year ended June 30, 1997 pursuant to a letter of arrangement dated April 25, 1997. It should be noted, C&L was not engaged to perform audits of the financial statements of any of the obligated groups as of and for the fiscal year ended June 30, 1997.

For both 1996 and 1997, C&L's engagement teams were comprised of numerous accounting professionals (many of whom were licensed Certified Public Accountants) who participated in planning and performing the audits in accordance with GAAS. The team for each year worked on the audit engagement for many months making inquiries of AHERF management, and analyzed thousands of pages of financial information provided by AHERF management and others in order to prepare its audit workpapers and reach its opinions on the financial statements they were engaged to audit. In addition, the team consulted with other C&L partners and professionals who were considered specialists in various health care and accounting matters to assist them in addressing many of the very complex and technical accounting matters.

VI. Summary of Opinions

A. Fiscal Years 1996 and 1997 Financial Statements Audits

A.1 C&L planned and performed their audits of the fiscal year 1996 financial statements in accordance with GAAS for the following entities:

- the consolidated financial statements of AHERF,
- the consolidated financial statements of AGHOG,
- the combined financial statements of DVOG, and
- the financial statements of Allegheny Integrated Health Group (AIHG)

C&L's performance under these standards provided a reasonable basis for their opinions that the financial statements were fairly presented, in all material respects, in conformity with GAAP.

A.2 C&L planned and performed their audit of the fiscal year 1997 consolidated financial statements in accordance with GAAS. C&L's performance under these standards provided a reasonable basis for their opinion that the AHERF financial statements were fairly presented, in all material respects, in conformity with GAAP.

A.3 In my opinion, AHERF management failed to meet its obligation to C&L as set forth in the AICPA professional standards and in the letters of arrangement in connection with C&L's fiscal year 1996 and 1997 audits of the financial statements. As a result, C&L was precluded in its ability to detect material misstatements in connection with its audits.

A.4 C&L's consideration of materiality relative to unrestricted net assets, total net assets and the impact on debt covenants was appropriate. Furthermore, I believe the opinions expressed by Mr. Berliner and Mr. Regan on materiality judgments would be relevant for for-profit healthcare systems, but are not appropriate for materiality judgments for not-for-profit healthcare systems.

A.5 C&L's evaluations of the Summary of Unadjusted Differences (SUD) for each of the fiscal years 1995, 1996 and 1997 were reasonable and in accordance with GAAS.

A.6 C&L's communications with the Audit Committee and/or Board of Trustees was appropriate and in accordance with GAAS.

F. Debt

- F.1** C&L's audit procedures with respect to debt were performed in accordance with GAAS and together with other audit procedures, provided a reasonable basis for their conclusion that debt was presented, in all material respects, in accordance with GAAP, in relation to the financial statements taken as a whole. Furthermore, C&L complied with GAAS in connection with the special reports issued giving negative assurance relative to compliance with certain debt covenants.

G. Miscellaneous Allegations

- G.1** I disagree with Messrs. Berliner and Regan that C&L violated GAAS by failing to require AHERF to correct various GAAP violations and that these violations caused material misstatements to the financial statements being audited.

VII. Bases for Opinions

A.1 C&L planned and performed their audits of the fiscal year 1996 financial statements in accordance with GAAS for the following entities:

- the consolidated financial statements of AHERF,
- the consolidated financial statements of AGHOG,
- the combined financial statements of DVOG, and
- the financial statements of AIHG

C&L's performance under these standards provided a reasonable basis for their opinions that the financial statements were fairly presented, in all material respects, in conformity with GAAP.

A.2 C&L planned and performed their audit of the fiscal year 1997 consolidated financial statements in accordance with GAAS. C&L's performance under these standards provided a reasonable basis for their opinion that the AHERF financial statements were fairly presented, in all material respects, in conformity with GAAP.

Introduction

Before I begin addressing the specific issues in this report, it is important that I provide a framework for many of the concepts that I will discuss. Therefore, in the following paragraphs, I will provide some explanations from GAAS and other professional literature about the objectives of an audit and provide some background about the audit process. In addition, I will explain the purpose and scope the reports of independent accountants on audited financial statements, sometimes referred to as the auditor's opinion. Later in this report, I will explain the meaning and intent of the Report of Independent Accountants on consolidating and combining information that accountants may provide to report on supplemental information when it accompanies the audited financial statements. Also, throughout this report, I will explain why it is my opinion that C&L met their professional obligations under GAAS in planning and performing their audits of AHERF's consolidated financial statements as of and for the years ended June 30, 1996 and 1997 and of the audits of the financial statements for AGHOG, DVOG, and AIHG for the year ended June 30, 1996. In addition, I will discuss my bases for reaching these opinions and I will respond to the various allegations made by Mr. Berliner and Mr. Regan.

For fiscal years 1996 and 1997 C&L conducted their audits of the respective financial statements in accordance with GAAS. Their audits were conducted by a team of qualified professionals who planned and performed their procedures with due care and exhibited an independence in mental attitude. C&L's planning procedures appropriately included obtaining an understanding of the controls relevant to their audit of the financial statements. After obtaining this understanding C&L judgmentally determined which controls it would test and rely on in the performance of its audit. Taking into

consideration these procedures, C&L performed its risk assessment, which determined the nature, timing and extent of the procedures performed. In performing these procedures, C&L obtained sufficient competent evidential matter that provided a reasonable basis for their opinions. As explained throughout this report, C&L audit team members obtained and assessed considerable information and documented their work and findings. Based on my review of the workpapers and reading depositions of C&L audit team members, I believe they demonstrated their expertise in accounting and auditing matters, their experience in the healthcare industry and their expertise in dealing with complex issues that were significant to AHERF.

Objective of an Audit

The purpose of an audit and the level of assurance provided by an auditor's opinion are often misunderstood. The objective of an audit of financial statements is the expression of an opinion on the fairness with which they present, in all material respects, financial position, results of operations, and cash flows in conformity with GAAP.⁸ Since an audit opinion on financial statements is based on the concept of reasonable assurance, an audit is not intended to insure and an audit report does not constitute a guarantee.⁹ In other words, an unqualified audit opinion does not provide assurance as to the financial health or future earnings of an entity. It provides only reasonable assurance on the fairness of the presentation of the financial statements in accordance with GAAP, in all material respects, and does not insure or guarantee sound financial condition, currently or in the future.

Definition of an Audit

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Audit procedures are performed to obtain the competent evidential matter required to provide the auditor a reasonable basis for an opinion on financial statements. These procedures include: inspection, observation, inquiries, confirmations, and analytical procedures. An audit also includes assessing the accounting principles used and significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

An audit provides only reasonable assurance, and does not guarantee that all misstatements related to errors or irregularities will be detected because of such factors as (a) the use of professional judgment throughout the audit process, (b) the need for auditors to work within economic limits, (c) the use of selective testing in designing and performing audit procedures, (d) the inherent limitations of internal control, and (e) the fact that much of the evidence available to the auditor is persuasive rather than convincing in nature.

⁸ June 1, 1997 AICPA Professional Standards, Volume 1, AU 110.01.

⁹ June 1, 1997 AICPA Professional Standards, Volume 1, AU 316A.08.

During an audit, management makes many representations to the auditor, both written and oral, in response to specific inquiries or through the financial statements.¹⁰ These representations are integral to conducting an audit and obtaining sufficient competent evidential matter. At the end of an audit, the auditor obtains written representations from management to complement and corroborate his audit procedures.

An audit of financial statements is typically conducted utilizing a team of qualified professionals comprised of associates, senior(s), manager(s) and partner(s). Audit teams are organized in a somewhat hierarchical manner. The nature of the team is dependent upon a number of factors, including the size and complexity of the audit client. The work performed is reviewed to determine whether it was adequately performed and to evaluate whether the results are consistent with the conclusions in the auditor's report.¹¹ The level of review and supervision depends on many factors, including the complexity of the subject matter, the qualifications of the persons performing the work and the judgment of the engagement team.¹²

As noted above, an auditor typically works within economic limits. As a result, the auditor's opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. The auditor must decide, again exercising professional judgment, whether the evidential matter available to him within the limits of time and cost is sufficient to justify expression of an opinion.¹³ In other words, an audit is never performed with unlimited resources.

The auditor should prepare and maintain working papers, the form and content of which should be designed to meet the circumstances of a particular engagement. The information contained in working papers constitutes the principal record of the work that the auditor has done and the conclusions that he has reached concerning significant matters. The nature and type of workpapers that are maintained are subject to the auditor's judgment, and the auditor is not precluded from supporting his report by other means in addition to working papers.¹⁴ Workpapers are records kept by the auditor of the procedures applied and tests performed and can include things such as company documents, analyses or schedules obtained or prepared by the auditor.¹⁵

¹⁰ June 1, 1997 AICPA Professional Standards, Volume 1, AU 333.02.

¹¹ June 1, 1997 AICPA Professional Standards, Volume 1, AU 311.13.

¹² June 1, 1997 AICPA Professional Standards, Volume 1, AU 311.11.

¹³ June 1, 1997 AICPA Professional Standards, Volume 1, AU 326.23.

¹⁴ June 1, 1997 AICPA Professional Standards, Volume 1, AU 339.01, footnote 3.

¹⁵ June 1, 1997 AICPA Professional Standards, Volume 1, AU 339.03.

Generally Accepted Auditing Standards

Statements on Auditing Standards are issued by the Auditing Standards Board, the senior technical body of the American Institute of Certified Public Accountants designated to issue pronouncements on auditing matters. These standards, referred to as GAAS, establish the quality of performance and the overall objectives to be achieved by the auditor in a financial statement audit. In the observance of GAAS, the auditor must exercise his judgment in determining which auditing procedures are necessary in the circumstances to afford a reasonable basis for the audit opinion. His judgment is required to be the informed judgment of a qualified professional person.¹⁶

Generally Accepted Accounting Principles

GAAP is a technical accounting term that encompasses the conventions, rules, and procedures necessary to define accepted accounting practice at a particular time. It includes not only broad guidelines of general application, but also detailed practices and procedures. Those conventions, rules, and procedures provide a standard by which to measure financial presentations.¹⁷

The auditor's opinion that financial statements present fairly, in all material respects, an entity's financial position, results of operations, and cash flows in conformity with GAAP should be based on his judgment as to whether:

- the accounting principles selected and applied have general acceptance;
- the accounting principles are appropriate in the circumstances;
- the financial statements, including the related notes, are informative of matters that may affect their use, understanding, and interpretation;
- the information presented in the financial statements is classified and summarized in a reasonable manner, that is, neither too detailed nor too condensed; and,
- the financial statements reflect the underlying transactions and events in a manner that presents the financial position, results of operations, and cash flows stated within a range of acceptable limits, that is, limits that are reasonable and practicable to attain in financial statements.¹⁸

Audit Risk

Audit risk is the risk that the auditor may unknowingly fail to appropriately modify his opinion on financial statements that are materially misstated.¹⁹ The consideration of audit risk has an important bearing on the nature of the audit.²⁰ This risk is recognized by the

¹⁶ June 1, 1997 AICPA Professional Standards, Volume 1, AU 110.04.

¹⁷ June 1, 1997 AICPA Professional Standards, Volume 1, AU 411.02.

¹⁸ June 1, 1997 AICPA Professional Standards, Volume 1, AU 411.04.

¹⁹ June 1, 1997 AICPA Professional Standards, Volume 1, AU 312.02.

²⁰ June 1, 1997 AICPA Professional Standards, Volume 1, AU 150.05.

statement in the standard audit report that the auditor obtained “reasonable assurance” about whether the financial statements are free from material misstatement.²¹

In the course of preparing financial statements, management must make accounting estimates that affect the amounts reported in the financial statements. The risk of material misstatement of accounting estimates normally varies with the complexity and subjectivity associated with the process, the availability and reliability of relevant data, the number and significance of assumptions that are made, and the degree of uncertainty associated with the assumptions.²²

Accounting Estimates

Estimates used in accounting are necessary consequences of periodic presentations of financial statements and, as a result, preparing financial statements requires estimating the effects of future events.²³ Examples of items which are considered to be estimates are uncollectible receivables, inventory that is obsolete, and the service life of depreciable assets. In assessing an accounting estimate, the auditor is responsible for evaluating the reasonableness of the estimate made by management in the context of the financial statements taken as a whole.²⁴ In evaluating the reasonableness of an estimate, the auditor normally concentrates on key factors and assumptions that are (a) significant to the accounting estimate, (b) sensitive to variations, (c) deviations from historical patterns, and (d) subjective and susceptible to misstatement and bias. The auditor normally should consider the historical experience of the entity in making past estimates as well as the auditor’s experience in the industry.²⁵ Further, the auditor obtains an understanding of how management developed the estimate and uses one or a combination of the following approaches to evaluate management’s estimates:

- Review and test the process used by management to develop the estimate.
- Develop an independent expectation of the estimate to corroborate the reasonableness of management’s estimate.
- Review subsequent events or transactions occurring prior to completion of field work.²⁶

Since no one accounting estimate can be considered accurate with certainty, the auditor recognizes that a difference between an estimated amount best supported by the audit evidence and the estimated amount included in the financial statements may be reasonable, and such difference would not be considered to be a likely misstatement.²⁷ In other words, an accounting estimate is correct as long as it is within a reasonable range.

²¹ June 1, 1997 AICPA Professional Standards, Volume 1, AU 312.02.

²² June 1, 1997 AICPA Professional Standards, Volume 1, AU 342.05.

²³ APB 20, paragraph 10.

²⁴ June 1, 1997 AICPA Professional Standards, Volume 1, AU 342.04.

²⁵ June 1, 1997 AICPA Professional Standards, Volume 1, AU 342.09.

²⁶ June 1, 1997 AICPA Professional Standards, Volume 1, AU 342.10.

²⁷ June 1, 1997 AICPA Professional Standards, Volume 1, AU 312.29.

TAB 244

In The Matter Of:

In Re: AHERF

*Charles Queenan, Jr.
Vol. 1, June 12, 2001*

*Morse, Gantverg & Hodge, Inc.
719 One Bigelow Square
Pittsburgh, PA USA 15219
(412) 281-0189*

*Original File queenan.txt, 278 Pages
Min-U-Script® File ID: 1904231292*

Word Index included with this Min-U-Script®

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[1] accounted for a variety of things in a proper fashion.
[2] And why the surprise.
[3] And if there were errors, irregularities,
[4] who was responsible for the accounting entries or
[5] under whose direction were they made.
[6] And if I may continue to understand what I
[7] just said, I assume you all do, you have to know the
[8] difference between an error and an irregularity.
[9] These were developed back in statement and
[10] auditing standards I think drafted by a former
[11] Pittsburgher by the name of Ken Johnson.
[12] An error is an unintentional mistake.
[13] An irregularity is a purposeful
[14] falsification.
[15] Q: In terms of what is stated in Exhibit
[16] 1716A, besides Mr. Barnes and Mr. Abdelhak, did you
[17] discuss a net loss in operating results or any
[18] shortfall with anyone else at AHERF?
[19] A: I discussed the reasons for both the net
[20] losses and the pending writeoffs with those two
[21] gentlemen, but also with Mr. Adamczak and
[22] Mr. Dionisio, and in part with Ms. Wynstra.
[23] Q: Did you become aware that the information
[24] that we have been referring to in Exhibit 1716A was
[25] discussed at the March 11, '98 finance and audit

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[1] committee meeting?
[2] A: Only by reading the minutes.
[3] Q: And is it your understanding by reading the
[4] minutes that that was something discussed at the
[5] meeting?
[6] A: It so states.
[7] Q: Did you speak to anyone else that is
[8] indicated as present at this meeting besides the ones
[9] we just discussed regarding a net loss of 71.8 million
[10] or a shortfall of 57 million?
[11] A: Not to my recollection.
[12] Q: If you could look at Exhibit 1712A.
[13] A: I have it.
[14] Q: Can you identify that document?
[15] A: I can.
[16] This is a document that had been given to
[17] me by Mr. Adamczak.
[18] Q: Do you recall when it was given to you?
[19] A: I think in the early May period of 1998.
[20] Q: When was your meeting with Mr. Barnes and
[21] Mr. Abdelhak we just discussed?
[22] A: In the latter part of April of 1998.
[23] Q: What was the occasion for you receiving
[24] this document from Mr. Adamczak?
[25] A: I had asked Mr. Adamczak about a number of

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[1] accounting issues dealing with both the accounts
[2] receivable, the intercompany payable balances, the
[3] method of utilizing purchase accounting and the
[4] acquisition of the hospitals over in the eastern part
[5] of the Commonwealth of Pennsylvania.
[6] And as well as I said intercompany entries
[7] with respect to reserves and balances.
[8] And this was given to me I believe in
[9] response to that inquiry.
[10] Q: Do you know whether Mr. Adamczak had
[11] prepared this memorandum prior to your inquiry?
[12] A: I don't know.
[13] Because I forget just -- I can't pin down
[14] the date that I asked him.
[15] Q: Do you remember him saying, "I will send
[16] you a memo on that" or "I will prepare a memo"?
[17] A: I don't recall.
[18] It could have been derived.
[19] I was asking these same things of
[20] Mr. Abdelhak. And during my meeting with him and
[21] Mr. Barnes to provide more detail, it could have been
[22] that Mr. Abdelhak asked Adamczak to do that.
[23] And then I got it as a result thereof.
[24] Or it could have been where I asked him. I
[25] don't remember.

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[1] Q: I will refer you to the second full
[2] paragraph. "During the latter part of fiscal year
[3] 1997 approximately 99.6 million of reserves
[4] established as part of the Graduate acquisition and
[5] subsequently determined to be cushion from a Graduate
[6] perspective were transferred from the Graduate
[7] entities to other DV entities."
[8] Were you aware of that 99 million dollar
[9] reserve transfer?
[10] A: Through this memo I was.
[11] Q: But not at the time it occurred?
[12] A: Not at the time it occurred, no.
[13] Q: This memo was your first information about
[14] the 99 million dollar transfer?
[15] A: It was.
[16] Q: Do you know what is meant by the word
[17] "cushion" in that sentence?
[18] A: I don't know exactly what is meant by that.
[19] The disturbing part to me was how the
[20] reserves were established in connection with the
[21] purchase accounting of a particular hospital. If you
[22] understand purchase accounting, you know you take the
[23] purchase price and the liabilities, and you allocate
[24] that among the various assets.
[25] When you increase the liabilities by

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1 putting a reserve on the right-hand side of the
2 balance sheet, that requires a corresponding entry on
3 the other side.
4 And that entry would be in the nature -
5 may be of goodwill, which would be written off over a
6 long time frame.
7 How you are doing it with one hospital,
8 then transferring reserves that you establish for
9 whatever reason, where future liabilities attributable
10 to that hospital, how you then took those reserves and
11 transferred them to another hospital was an answer I
12 didn't know then and I don't know now.
13 Q: Did you investigate the propriety of
14 setting up those reserves at the Graduate originally?
15 A: I was in process of doing that.
16 But it was incomplete.
17 Q: What did you learn?
18 A: I didn't learn very much.
19 I kept on asking the question.
20 But I wasn't getting good information. I
21 had a lot of material to review.
22 I had planned on taking these up with the
23 outside accounting firm. Because it was my impression
24 that they approved the purchase accounting.
25 So I had two issues.

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1 The first issue was the purchase accounting
2 entries at the outset appropriate. And what kind of
3 valuations were made in terms of setting those up.
4 And once you had them established for a
5 particular hospital how, even if you filed
6 consolidated financials, how could you write
7 liabilities attributable to another hospital off
8 reserves from another hospital, I don't know the
9 answer to that. Nor do I know the answer to the
10 propriety of the purchase accounting.
11 Those were questions I was trying to scope
12 out the answer of the inquiry.
13 Q: That fact was disturbing to you when you
14 learned of it in early May '98?
15 A: Yes.
16 Q: Who did you speak to about that issue?
17 A: Remember I initially was in fact
18 gathering. I know in human nature I won't be able to
19 get much fact gathering, if I go out the initiative
20 with an accusatory tone.
21 So I am not - one of the questions I asked
22 was "What information do we have on that? How was
23 this done? What is the background? Did the
24 accountants - was there any memorandums issued on the
25 subject? Was this commented on in the Coopers &

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1 Lybrand management letter report?"
2 Those were the kind of inquiries I was
3 making over the time frame.
4 Q: Coopers & Lybrand was the accounting firm
5 that you indicated you believed had approved the -
6 A: They had given certified audited reports
7 without qualification in 1997.
8 And that was a time frame in which
9 hospitals were acquired.
10 So it would be very much a part of the
11 nature of their audit to look at the way purchase
12 accounting was utilized.
13 How it was set up.
14 And what supporting documentation the
15 entity had for setting up these reserves.
16 Q: What did you learn about who was involved
17 in the creation of the reserves?
18 A: I never got an answer to that. So I didn't
19 learn anything as to who set them up or who authorized
20 them to be set up.
21 Q: Did you learn anything about who
22 transferred them or authorized them to be transferred?
23 A: No.
24 I had heard that it was done under the
25 direction of Mr. McConnell, but I don't know whether

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1 that was so or not so. Because I never had an
2 opportunity to interview him nor to get corroboration.
3 Q: Who did you hear that from?
4 A: The inference I heard it from was
5 Mr. Abdelhak.
6 Q: When did you hear that?
7 A: I think my first meeting with Barnes and
8 Abdelhak.
9 Q: Did Mr. Abdelhak express any concern about
10 the propriety of the reserve transfer?
11 A: I don't know that he expressed.
12 He started to talk about reserves at that
13 meeting.
14 I said, "How were they set up?"
15 And I found after parsing through something
16 less than a clear coherent explanation, I got some
17 sense that it was set up incident to the purchase of
18 the hospitals.
19 And then I got some sense that this would
20 cover all of the writeoffs from the various hospitals.
21 I said, "How can you do that?"
22 And I didn't get an answer.
23 He said "McConnell must have done it" or
24 something to that effect. That was the inference I
25 got.

In Re: AHERF

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[1] To my recollection that is where I got it.
[2] Whether that was picked up in later
[3] conversations I had with Dionisio or Adamczak, I don't
[4] recall.

[5] Q: Did you discuss the Graduate reserve
[6] transfers with anyone else besides Mr. McConnell?

[7] A: Besides who?

[8] Q: With anyone besides Mr. McConnell?

[9] A: I never discussed it with Mr. McConnell.

[10] Q: I am sorry, with Mr. Abdelhak.

[11] A: I can't recall. I may have, as I just
[12] said, with Dionisio or Adamczak. But I don't recall.

[13] Q: Do you recall discussing the Graduate
[14] reserve transfer with any trustees, AHERF trustees?

[15] A: I don't.

[16] Q: Where was the meeting that you had with
[17] Mr. Barnes and Mr. Abdelhak in late April '98?

[18] A: In a room in the Duquesne Club in
[19] Pittsburgh.

[20] MR. DORMAN: I didn't hear that.

[21] A: A room in the Duquesne Club in Pittsburgh.

[22] Q: Do you recall how long that meeting lasted?

[23] A: I don't recall.

[24] My impression is an hour and a half to two
[25] hours.

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[1] Q: And there was no one else present besides
[2] the three of you?

[3] A: There was no one else present.

[4] Q: And how was that meeting arranged?

[5] A: It was arranged on a phone call that I had
[6] the day before from Mr. Abdelhak saying that he and
[7] Mr. Barnes wanted to meet with me on a matter related
[8] to AHERF.

[9] And could I arrange my schedule to come.
[10] I think he called the day before.

[11] Could I arrange my schedule to come the
[12] following afternoon, I believe.

[13] Q: Was there some urgency to his request?

[14] A: To the extent he wanted to meet the next
[15] day there was, yes.

[16] Q: Do you know why that was?

[17] A: I have no idea.

[18] Q: Was Mr. Barnes - did Mr. Barnes
[19] participate in that phone call?

[20] A: No. Not to my recollection.

[21] Q: Did Mr. Barnes participate in the meeting
[22] in his capacity as chairman of the finance and audit
[23] committee?

[24] A: That was my impression.

[25] Q: Do you know whether the finance and audit

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[1] committee was aware of any of the issues that
[2] Mr. Barnes discussed with you at that meeting?

[3] A: I do not.

[4] Let me correct that.

[5] You have given me minutes of a prior
[6] meeting, which had some of these writeoffs reflected.

[7] I did not know about that meeting at that
[8] time.

[9] So you can say when you ask the question
[10] did the finance committee know about the writeoffs,
[11] they knew to the extent reflected in those minutes.

[12] Q: That you learned of in May of '98?

[13] A: That I learned later. That's right.

[14] Q: In May of '98?

[15] A: In May of '98. When I got a copy of the
[16] minutes.

[17] Q: Do you have any specific recollection of
[18] when you received that what you call the big chunk of
[19] documents from Wynstra in early May '98?

[20] A: I don't. It was some time in May. The
[21] date I have no idea.

[22] Q: Did you say early May?

[23] A: I know I was asking in early May. Just
[24] when I got them - because I know she had to collect
[25] some of them.

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[1] But the exact dates which I got them, my
[2] guess is probably reasonably early May, maybe the
[3] second week or start of the second week.

[4] But that is pure conjecture.

[5] Q: If I could refer you to Exhibit 1713A.

[6] Can you identify that document for me?

[7] A: Yes.

[8] This would be again one of the documents
[9] that was given to me by Mr. Adamczak incident to the
[10] inquiry I had been making.

[11] Q: The previous exhibit we looked at, 1712A,
[12] was dated May 1. This one is dated May 7.

[13] A: That's correct.

[14] Q: Are you aware of anything that led
[15] Mr. Adamczak to prepare this memorandum?

[16] A: I had met with him.

[17] And I was asking questions about the
[18] reserves, how they were established. And heard that
[19] they had moved between entities.

[20] And I was wondering how that was done and
[21] under whose authority it was done.

[22] And my sense was that this would be at
[23] least in part responsive to that.

[24] Q: Who was the first AHERF person that you met
[25] with after your meeting with Mr. Barnes and

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1 function and accounting function had been outsourced.

2 This was background material he was saying,
3 he was telling me about the reasons for a lot of the
4 chargeoffs.

5 And the reasons for the continual aging of
6 the accounts receivable.

7 Q: Do I understand you correctly to say that
8 there was a bigger problem with chargeoffs or
9 writeoffs in the east because they were less
10 conservative than the west?

11 A: That is what I was told.

12 Q: What did you discuss about the Graduate
13 reserves with Mr. Dionisio?

14 A: I can't recall. Except I believe I asked
15 him how they were established and how the reserves
16 were transferred among entities.

17 But I don't recall his answer.

18 Q: You said inadvertent fax was sent. What
19 was the inadvertent fax?

20 A: The inadvertent fax was a fax sent I
21 believe from the west to the eastern hospitals
22 indicating that the accounts receivable function was
23 to be consolidated.

24 This at that time was not known to the
25 personnel in the east.

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1 Q: When was the timing of that fax?

2 A: I have no idea.

3 Q: Was it in '98, do you know?

4 A: I don't know.

5 I would guess it would have been before
6 that.

7 Q: Before 1998?

8 A: That would be my conjecture. But I don't
9 know that.

10 Q: Was there any resulting discourse between
11 east management and west management as a result of
12 that issue?

13 A: I suspect there was.

14 But I am unaware of any particular
15 discourse.

16 There would have to be to consolidate
17 things in Pittsburgh. "Send them here."

18 Q: Are you aware of when they were
19 consolidated?

20 A: I am not aware.

21 Q: Are you aware of whether they were
22 consolidated?

23 A: I am unaware.

24 Q: Did you have any discussion regarding the
25 Keysop plan or the loan program with Mr. Abdelhak or

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1 Mr. Barnes at that initial meeting?

2 A: No.

3 Not that I recall.

4 Q: Was that an issue that came up in your
5 meetings with Mr. Dionisio or Adamczak?

6 A: I don't recall they were.

7 Q: Or Ms. Wynstra?

8 A: I don't recall they were.

9 Q: Were you aware at the time you were doing
10 your investigation that there was Keysop distribution
11 that was made in 1998 to certain executives?

12 A: I was unaware of that at that time.

13 Q: Did you become aware of it at some time
14 during your work for AHERF?

15 A: I may have later incident to the analysis
16 of an appropriate termination of Mr. Abdelhak.

17 Just when I learned about it, I am not
18 quite sure.

19 I think I learned about it - I am sure it
20 was after May.

21 I don't think I even heard the word

22 "Keysop."

23 Q: It was after Mr. Abdelhak's termination as
24 best you recall?

25 A: That is to the best of my recollection,

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1 yes.

2 Q: That was on June 5th, 1998?

3 A: I think that was the date of the
4 termination.

5 I think there was a process that started
6 before that leading up to a final decision to
7 terminate and how one would go about approaching the
8 resolution of appropriate severance arrangement for it.

9 Q: What did you learn about the Keysop
10 distributions that were made?

11 A: I don't recall other than I think there was
12 some memo indicating that some had been made earlier.

13 But right now I have no recollection of it.

14 I do recall the Keysop issue incident to an
15 analysis of the severance arrangement for Mr. Abdelhak.

16 Q: Was there any discussion or investigation
17 in to the propriety of the Keysop distributions that
18 were made in 1998?

19 A: Not to my recollection.

20 Q: When you learned of the Keysop

21 distributions in or after June 1998, were you aware -

22 A: What was the date of the Keysop
23 distributions?

24 Q: I don't have that in front of me right
25 now. I am sorry.

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[1] Do you recall -
[2] A: There was, as you know, Keysop distribution
[3] made much later incident to a payment of indebtedness
[4] to Pittsburgh National Bank.
[5] Is that what you are talking about?
[6] Q: Yes.
[7] A: I didn't learn about that until soon before
[8] it was made.
[9] Q: In the July '98 time frame?
[10] A: Yes.
[11] Much later.
[12] Close to when they were made.
[13] Q: Do you know how much - how much in
[14] distributions there was done?
[15] A: I don't recall, no.
[16] But I do know they were used to pay off the
[17] indebtedness to PNB.
[18] Q: What Keysop distribution that you learned
[19] of in June of '98 were you referring to earlier?
[20] A: I had thought you were talking about the
[21] way in which the Keysop had been set up -
[22] Q: For Mr. Abdelhak.
[23] A: For a group of employees.
[24] A group of officers.
[25] Moneys otherwise that were part of

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[1] different plans were distributed and put in to that
[2] Keysop.
[3] That is what I thought you were talking
[4] about.
[5] The initial setup of the Keysop.
[6] I learned about that in terms of the way it
[7] was set up earlier incident to an analysis of what is
[8] the package in terms of appropriate severance was
[9] Sherif Abdelhak entitled to and under what bases.
[10] And that is what I thought you were talking
[11] about.
[12] Again, I didn't learn that until after the
[13] June time frame.
[14] That is what I thought you were talking
[15] about.
[16] MR. PIETRAGALLO: Would you excuse us one
[17] second?
[18] MR. SPITALETTO: Sure.
[19] [THE VIDEOGRAPHER: This concludes tape 1 of
[20] the deposition of Mr. Charles Queenan. We are
[21] off the record. The time is 11:21 a.m.
[22] (Discussion off the record.)
[23] [THE VIDEOGRAPHER: This begins tape 2 of
[24] the deposition of Mr. Charles Queenan. We are
[25] back on the record. The time is 11:23 a.m.

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[1] BY MR. SPITALETTO:
[2] Q: Upon the advice of your counsel,
[3] Mr. Queenan, I am going to ask you generally what the
[4] scope of the work that you performed for AHERF in 1998
[5] was?
[6] A: Yes.
[7] I think it is best understood that it was
[8] three discrete assignments.
[9] The first assignment, which was denominated
[10] on our records as special project, started with the
[11] meeting with Mr. Abdelhak and Mr. Barnes.
[12] And it looked in to an investigation of the
[13] accounting entries used particular in '97 and early
[14] '98.
[15] And whether those accounting entries were
[16] appropriate or inappropriate.
[17] And the reason for that investigation, as I
[18] understood it, was the surprise that came to
[19] Mr. Barnes when he learned that the order of magnitude
[20] of the writeoffs over and above those that had already
[21] happened were in the 200 to 300 million dollar range.
[22] That was an investigation that started in
[23] late April and terminated some time, I believe, in the
[24] third week in May.
[25] Where the second of the discrete

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[1] assignments happened. This occurred as a result of a
[2] phone call I received from Mr. Danforth saying that
[3] over the phone that the decision had been made to
[4] consider the termination of Mr. Abdelhak, that he
[5] wanted me and our firm to engage in an analysis of
[6] what an appropriate severance arrangement would be
[7] under the employment contract that Mr. Abdelhak had
[8] with AHERF. And would I meet with Mr. Kasperbauer as
[9] soon as possible.
[10] So the second of the discrete assignments
[11] related to an analysis of the employment contract, the
[12] compensation package that Mr. Abdelhak had. His
[13] employment contract. And an appropriate severance
[14] arrangement.
[15] The third discrete involvement, and on my
[16] part this became less and less of an involvement was
[17] in my mind crisis management.
[18] And it started in the latter part of June,
[19] and in part overwhelmed and enveloped the severance
[20] arrangement for Mr. Abdelhak.
[21] And it was the result of information coming
[22] to the attention of the directors by reason of the
[23] change from personnel, the CEO from Mr. Abdelhak to
[24] Mr. Sanzo, wherein information started to be brought
[25] of the deteriorating nature of the financial affairs

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1 of the institution.

2 It was crisis management which involved a
3 close look at a variety of options.

4 These options included combinations with
5 other entities.

6 They included refinancing.

7 They included looking to obtain help at
8 both the federal and the state level from the
9 standpoint of financial help.

10 It included an analysis of whether a
11 bankruptcy was an appropriate option.

12 That was the third.

13 And I describe that crisis management.

14 The second I described as severance
15 arrangements for Abdelhak.

16 And the first I described as accounting
17 investigation.

18 MR. DORMAN: Did you say the third was
19 accounting investigation?

20 A: That was the first. The second, severance
21 arrangements. The third, crisis management.

22 Q: In conjunction with the first assignment,
23 was there any consideration or review of endowment
24 documents or restricted funds?

25 A: I don't recall that I got to that at that

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1 time.

2 I don't believe I did.

3 Q: Was it an issue that was raised?

4 A: I don't recall it was an issue raised then.

5 Q: If you could look at Exhibit 1694A.

6 MR. PIETRAGALLO: Can you tell me what I am
7 looking for?

8 Q: Can you identify that document?

9 A: I can not.

10 Q: You have never seen it before preparation
11 for your deposition or today?

12 A: I never saw it, I am not even sure I saw
13 this during preparation.

14 Q: For the record, it appears to be a May 13,
15 1998 letter to Rob Byer at Kirkpatrick & Lockhart from
16 Nancy Wynstra.

17 I will direct you to the first sentence,
18 Mr. Queenan, "Enclosed are the documents relative to
19 the various endowments at the former Graduate
20 hospitals, which you have requested."

21 Are you aware of whether or not Mr. Byer
22 was conducting some examination of the endowment
23 documents?

24 A: I was not aware.

25 Q: Who is Mr. Byer?

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1 A: He is a partner in the firm of Kirkpatrick
2 & Lockhart.

3 Q: Did you ever work with him in regard to
4 AHERF?

5 A: No.

6 Q: What is his practice area?

7 A: He has a wide variety. Certainly
8 litigation would be one.

9 He also is involved in business affairs.

10 But heavily involved in procedural aspects
11 of litigation.

12 A former judge, as you know.

13 Q: Are you aware of what work he was doing for
14 AHERF or any of its subsidiaries?

15 A: No.

16 Let me correct that.

17 I certainly was not aware of anything
18 reflected in the May 13th letter.

19 In the crisis management or the third
20 phase, I do recall that he was trying to be helpful
21 with I believe people at the state level to see in
22 terms of one of the options of state and federal
23 levels that he was involved in trying to ascertain
24 what the possibility would be to get some support from
25 state government to tie this thing over until we had

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1 refinancing.

2 Q: Are you aware of whether or not in
3 connection with what you are referring to as the
4 crisis management assignment any consideration or
5 evaluation was done of endowments or restricted funds?

6 A: That was an issue that had come up. In
7 terms of just the relevance and how it came up in
8 terms of the crisis management, I don't know.

9 I was not personally involved in it.

10 Q: Who was involved?

11 A: Other lawyers in the firm. Just which
12 ones, I don't know.

13 Q: Did you do any work in connection with the
14 potential Vanguard agreement or acquisition of some
15 AHERF entities?

16 A: Other than reading it, reading a draft of
17 one of the acquisition agreements, I did not.

18 Q: Are you aware of whether Vanguard did due
19 diligence in connection with their consideration of
20 purchasing AHERF entities?

21 A: I am not aware. I assume they did. But I
22 am not aware.

23 Q: If I could refer you to Exhibit 1714A.

24 Can you identify that document?

25 A: I can.

TAB 245

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TAB 246

In The Matter Of:

*AHERF v.
PRICEWATERHOUSECOOPERS, L.L.P.*

*WILLIAM SNYDER, III
July 15, 2003*

LEGALINK MANHATTAN
*420 Lexington Avenue - Suite 2108
New York, NY 10170
PH: 212-557-7400 / FAX: 212-692-9171*

SNYDER, III, WILLIAM



LEGALINK®

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WILLIAM SNYDER, III

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<p>09:54:27 1 St Christopher's?</p> <p>09:54:27 2 A. I've been going through that since you've been</p> <p>09:54:31 3 talking trying to remember whether -- I know we</p> <p>09:54:33 4 talked about it. Whether it was completed or</p> <p>09:54:35 5 not, I don't remember.</p> <p>09:54:43 6 Q. Do you recall that thereafter AHERF acquired</p> <p>09:54:56 7 Hahnemann University?</p> <p>09:54:56 8 A. Hahnemann?</p> <p>09:54:58 9 Q. Yes.</p> <p>09:54:59 10 A. Right.</p> <p>09:55:01 11 Q. And what was the reason why AHERF acquired</p> <p>09:55:07 12 Hahnemann?</p> <p>09:55:07 13 A. Well, it was a leading hospital -- one of the</p> <p>09:55:18 14 leading hospitals in Philadelphia and would be,</p> <p>09:55:31 15 again, a facility that would be a good thing</p> <p>09:55:38 16 for us to own. That's as much as I can say</p> <p>09:55:41 17 about it. I was not against it.</p> <p>09:55:43 18 Q. Do you recall that there was also a medical</p> <p>09:55:47 19 school that was part of Hahnemann?</p> <p>09:55:49 20 A. Yes.</p> <p>09:55:49 21 Q. And did you think it was a good idea for AHERF</p> <p>09:55:58 22 to acquire a second medical school?</p> <p>09:56:00 23 A. Well, I think they were -- I don't remember,</p> <p>09:56:03 24 but I think they were joined together, so there</p> <p>09:56:08 25 was one, and they flew under the MCP flag. I</p>	<p>09:57:51 1 Q. And was it your understanding that adding</p> <p>09:58:00 2 Hahnemann to AHERF's network of hospitals in</p> <p>09:58:03 3 Philadelphia would increase the strength of</p> <p>09:58:06 4 AHERF's hospitals overall?</p> <p>09:58:08 5 A. Oh, certainly.</p> <p>09:58:09 6 Q. By the ability to refer patients?</p> <p>09:58:15 7 A. Right.</p> <p>09:58:15 8 Q. And to achieve --</p> <p>09:58:16 9 A. That was the main reason for all of them, the</p> <p>09:58:21 10 ability to refer patients.</p> <p>09:58:22 11 Q. Do you recall there being any consideration</p> <p>09:58:24 12 about the ability to achieve efficiencies from</p> <p>09:58:28 13 having more hospitals?</p> <p>09:58:30 14 A. Well, there was supposed to be synergies in</p> <p>09:58:34 15 that, yes.</p> <p>09:58:34 16 Q. Do you recall what those were?</p> <p>09:58:35 17 A. Well, economy of size.</p> <p>09:58:46 18 Q. And do you know whether AHERF then did realize</p> <p>09:58:53 19 an economy of size?</p> <p>09:58:56 20 A. Well, I remember that they certainly strove to</p> <p>09:59:00 21 have that -- to accomplish that, and to what</p> <p>09:59:04 22 degree it was accomplished, I'm not in a</p> <p>09:59:06 23 position to say.</p> <p>09:59:07 24 Q. Do you remember a discussion about how being</p> <p>09:59:13 25 larger would help AHERF in negotiating with</p>
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<p>09:56:14 1 don't remember the size of the Hahnemann</p> <p>09:56:16 2 Medical School</p> <p>09:56:24 3 Q. And what information did you have as a member</p> <p>09:56:27 4 of the board about the consolidation of these</p> <p>09:56:30 5 two medical schools?</p> <p>09:56:35 6 MR. WHITNEY: Objection. Vague.</p> <p>09:56:39 7 MR. MCCLENAHAN: You may answer if</p> <p>09:56:41 8 you recall.</p> <p>09:56:46 9 A. I don't think there was any objection to</p> <p>09:56:49 10 putting them together, no. As a matter of</p> <p>09:56:52 11 fact, I think everybody thought it was a good</p> <p>09:56:55 12 idea.</p> <p>09:56:55 13 Q. Do you recall there being any sorts of problems</p> <p>09:56:58 14 arising in the consolidation process?</p> <p>09:57:01 15 A. Personnel problems, yes.</p> <p>09:57:03 16 Q. Personnel problems meaning faculty or --</p> <p>09:57:07 17 A. Yes, faculty.</p> <p>09:57:08 18 Q. Do you know what the financial condition of</p> <p>09:57:27 19 Hahnemann University Hospital was at the time</p> <p>09:57:28 20 that AHERF acquired it?</p> <p>09:57:30 21 A. Well, I know university hospitals were having</p> <p>09:57:41 22 trouble financially, and I think, I recall,</p> <p>09:57:43 23 that Hahnemann also was having some financial</p> <p>09:57:48 24 troubles, but it was within our ability to</p> <p>09:57:49 25 handle it at the time.</p>	<p>09:59:17 1 insurance companies?</p> <p>09:59:18 2 A. With what?</p> <p>09:59:19 3 Q. Insurance companies.</p> <p>09:59:21 4 A. Oh, with insurance companies. Sure.</p> <p>09:59:24 5 Certainly.</p> <p>09:59:24 6 Q. And what do you recall about that?</p> <p>09:59:26 7 A. Well, I recall that if we had -- would have had</p> <p>09:59:31 8 or did have a big enough slice of the insurance</p> <p>09:59:34 9 market, that we could call some of the shots.</p> <p>09:59:39 10 Q. So that by having hospitals like Hahnemann and</p> <p>09:59:43 11 St. Christopher's in the system that were seen</p> <p>09:59:46 12 as clinically good hospitals, AHERF would be</p> <p>09:59:49 13 able to get rates from the insurance companies</p> <p>09:59:51 14 that would be higher?</p> <p>09:59:52 15 A. That was one of the ideas, yes.</p> <p>09:59:54 16 Q. And do you know if that goal was accomplished</p> <p>10:00:01 17 by AHERF?</p> <p>10:00:03 18 A. No, I don't know that.</p> <p>10:00:04 19 Q. Do you remember anyone in management at AHERF</p> <p>10:00:13 20 or on the board of trustees speaking out</p> <p>10:00:16 21 against the acquisition of Hahnemann?</p> <p>10:00:20 22 A. I don't recall.</p> <p>10:00:20 23 Q. You testified earlier a little bit about</p> <p>10:00:42 24 AHERF's acquisition of physician practices, is</p> <p>10:00:45 25 that right?</p>

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<p>10:00:45 1 A. Yes.</p> <p>10:00:46 2 Q. And a principal purpose of those acquisitions</p> <p>10:00:57 3 was to increase the number of patients at the</p> <p>10:01:00 4 hospitals, is that right?</p> <p>10:01:01 5 A. Right.</p> <p>10:01:01 6 Q. Do you recall that the practices themselves</p> <p>10:01:11 7 were losing a considerable amount of money?</p> <p>10:01:14 8 A. Are you talking about before or after</p> <p>10:01:17 9 acquisition?</p> <p>10:01:17 10 Q. After acquisition.</p> <p>10:01:18 11 A. Yes. They were losing a considerable amount of</p> <p>10:01:22 12 money after acquisition as a whole.</p> <p>10:01:24 13 Q. Yes.</p> <p>10:01:25 14 A. Yes.</p> <p>10:01:25 15 Q. And was that a concern to you?</p> <p>10:01:27 16 A. Yes, it was.</p> <p>10:01:28 17 Q. And what types of discussions do you recall</p> <p>10:01:34 18 about that concern?</p> <p>10:01:34 19 A. I recall discussions about the amount of money</p> <p>10:01:45 20 we were expending to purchase them and when we</p> <p>10:01:49 21 were going to see some return on that. It was</p> <p>10:01:55 22 a difficult thing to see a return, because you</p> <p>10:01:57 23 had to wait till the hospitals got the</p> <p>10:01:59 24 additional patients, and that, of course, took</p> <p>10:02:01 25 time to do that. So it was difficult to</p>	<p>10:03:49 1 were some measures in place to attempt to</p> <p>10:03:52 2 reduce the losses?</p> <p>10:03:52 3 A. Yes. Yes. There was always an attempt to</p> <p>10:04:00 4 contain costs wherever possible.</p> <p>10:04:02 5 Q. That was something that Sherif Abdelhak told</p> <p>10:04:05 6 the board?</p> <p>10:04:06 7 A. Yes. He preached that.</p> <p>10:04:08 8 Q. Let me turn now, if I could, to these meetings</p> <p>10:04:23 9 that I think you mentioned that you would have</p> <p>10:04:25 10 with Sherif Abdelhak.</p> <p>11 A. Sure.</p> <p>10:04:28 12 Q. Were these generally in person or by telephone</p> <p>10:04:32 13 or how did you communicate?</p> <p>10:04:33 14 A. Mostly in person, because I was just a floor</p> <p>10:04:37 15 below him, and I would walk upstairs or he'd</p> <p>10:04:40 16 come down to see me.</p> <p>10:04:42 17 Q. I see. So you had an office in Fifth Avenue</p> <p>10:04:45 18 Place?</p> <p>10:04:46 19 A. Yes, I did.</p> <p>10:04:46 20 Q. And that was an AHERF office?</p> <p>10:04:50 21 A. Well, it was three offices and a meeting room.</p> <p>10:04:55 22 The meeting room was used exclusively by AHERF.</p> <p>10:05:00 23 My office was paid for by AHERF, and I had two</p> <p>10:05:04 24 other offices. I had a secretary and an</p> <p>10:05:07 25 accountant, and their space I paid for by</p>
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<p>10:02:05 1 dollarize anything there.</p> <p>10:02:07 2 Q. Was it your understanding that this was a</p> <p>10:02:11 3 strategy that had considerable short-term</p> <p>10:02:14 4 costs, but that hopefully would have</p> <p>10:02:18 5 considerable long-term benefits?</p> <p>10:02:20 6 A. Long-term gains, right.</p> <p>10:02:22 7 Q. And was that something that was in these board</p> <p>10:02:26 8 meetings talked about, this issue of short-term</p> <p>10:02:30 9 cost versus long-term gain?</p> <p>10:02:32 10 A. I'm sure that Sherif explained that, and that</p> <p>10:02:36 11 was the understanding of everybody, that it</p> <p>10:02:38 12 would take some time, as I had just stated.</p> <p>10:02:41 13 Q. Were there any members of the board of trustees</p> <p>10:02:54 14 who you recall speaking out against this</p> <p>10:02:57 15 strategy of acquiring physician practices?</p> <p>10:03:05 16 A. No, sir, I can't remember that, but I can</p> <p>10:03:07 17 remember that there was lively discussion about</p> <p>10:03:11 18 it, because nobody understood -- some people</p> <p>10:03:14 19 did not understand it too well, and it had to</p> <p>10:03:17 20 be explained to them in detail.</p> <p>10:03:19 21 Q. Do you know whether AHERF management was taking</p> <p>10:03:26 22 any steps to try to deal with these losses at</p> <p>10:03:31 23 the practices after acquisition?</p> <p>10:03:33 24 A. No, I don't remember what they tried to do.</p> <p>10:03:41 25 Q. Was it your understanding, though, that there</p>	<p>10:05:10 1 returning money to AHERF. So, ostensibly, they</p> <p>10:05:15 2 just paid for my office.</p> <p>10:05:16 3 Q. Understood.</p> <p>10:05:28 4 And would Sherif Abdelhak bring</p> <p>10:05:32 5 questions or concerns to you or was it you</p> <p>10:05:36 6 raising questions with him or did it go both</p> <p>10:05:39 7 ways?</p> <p>10:05:39 8 A. Both ways, yes.</p> <p>10:05:40 9 Q. What types of questions would you raise with</p> <p>10:05:45 10 Mr. Abdelhak?</p> <p>10:05:45 11 A. I raised questions constantly about we were</p> <p>10:05:58 12 going pretty fast in this whole thing, and we</p> <p>10:06:02 13 better assimilate some of the things before we</p> <p>10:06:05 14 went into others.</p> <p>10:06:07 15 Q. And when you say that you were going pretty</p> <p>10:06:10 16 fast, you mean AHERF's pace of acquisitions?</p> <p>10:06:12 17 A. Yes.</p> <p>10:06:13 18 Q. And what did Mr. Abdelhak say about that?</p> <p>10:06:17 19 A. I don't know what he said about that.</p> <p>10:06:22 20 Q. I mean, did he express to you a confidence that</p> <p>10:06:28 21 he had everything under control?</p> <p>10:06:30 22 A. Sherif Abdelhak had a confidence --</p> <p>10:06:34 23 self-confidence in everything, everything</p> <p>10:06:39 24 There was very few things that he couldn't</p> <p>10:06:46 25 accomplish.</p>

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<p>10:06:46 1 Q. Did you considerate at all trying to implement 10:07:02 2 some type of benchmarks to determine how AHERF 10:07:07 3 was doing in terms of assimilating 10:07:11 4 newly-acquired entities? 10:07:13 5 A. No. I don't think it was possible at the time. 10:07:18 6 They were going too fast. 10:07:19 7 Q. Did you suggest to Mr. Abdelhak that the 10:07:26 8 organization ought to slow down on the pace of 10:07:28 9 acquisitions? 10:07:29 10 A. Yes. 10:07:29 11 Q. In the end, though, the acquisitions continued, 10:07:41 12 didn't they? 10:07:41 13 A. I don't know what time frame you're talking 10:07:45 14 about that I said that, but in the end, they 10:07:47 15 certainly did continue. 10:07:48 16 Q. Well, during what time period were you raising, 10:07:56 17 you know, a suggestion that the organization 10:07:59 18 ought to slow down in the acquisition pace? 10:08:00 19 A. At what period? 10:08:02 20 Q. Yes. 10:08:02 21 A. Did you say that? Oh, I don't remember. I 10:08:06 22 suppose halfway along the Philadelphia 10:08:09 23 acquisition path. 10:08:12 24 Q. And did Mr. Abdelhak have arguments as to why 10:08:19 25 AHERF should continue making the acquisitions?</p>	<p>10:09:38 1 THE VIDEOGRAPHER: We're now going 10:09:40 2 off the record. The time on the screen is 10:09:42 3 10:09. 4 ---- 5 (There was a recess in the proceedings.) 6 ---- 10:23:30 7 THE VIDEOGRAPHER: We're now back on 10:24:28 8 the record. The time on the screen is 10:24. 10:24:31 9 BY MR. RYAN: 10:24:31 10 Q. We've been talking a little bit, Mr. Snyder, 10:24:35 11 about a series of acquisitions that AHERF made. 10:24:43 12 What role, in your understanding, did the board 10:24:45 13 of trustees play in reviewing or approving 10:24:50 14 those acquisitions? 10:24:55 15 A. Well, they did just that, they reviewed them 10:24:58 16 and approved them after discussion. 10:25:02 17 Q. And at least speaking for you personally, what 10:25:10 18 type of review did you undertake of these 10:25:14 19 proposed acquisitions? 10:25:15 20 A. I normally talked to Abdelhak about each one 10:25:23 21 prior to the time it was brought to the board. 10:25:26 22 Q. And what types of questions would you ask about 10:25:31 23 a proposed acquisition? 10:25:32 24 A. What the acquisition is going to bring to our 10:25:38 25 overall strategy, and questions as to the</p>
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<p>10:08:21 1 A. Convincing arguments. 10:08:23 2 Q. And I take it that he ended up convincing you 10:08:28 3 and other members of the board? 10:08:30 4 MR. WHITNEY: Objection. Foundation. 10:08:31 5 MR. RYAN: All right. Well, let me 10:08:31 6 just start with the simple question. 10:08:33 7 BY MR. RYAN: 10:08:33 8 Q. I take it that he ended up -- that he ended up 10:08:38 9 convincing you? 10:08:41 10 A. Yes. 10:08:41 11 Q. Did any other trustees raise any concern with 10:08:52 12 you in private outside board meetings about the 10:08:57 13 pace of AHERF's acquisitions? 10:08:58 14 A. I believe they did, but I can't tell 10:09:04 15 specifically who they were. There was a lot of 10:09:11 16 talk about it, and yet there was a lot of pride 10:09:19 17 in what we were doing 10:09:23 18 MR. MCCLLENHAN: At some point when 10:09:26 19 it's convenient, I think we should take a 10:09:30 20 ten-minute recess. 10:09:32 21 MR. RYAN: Sure. Now is fine to take 10:09:35 22 a short break -- 23 THE WITNESS: Okay. 10:09:35 24 MR. RYAN: -- if that's convenient to 10:09:38 25 you.</p>	<p>10:25:47 1 financial implications. 10:25:53 2 Q. And I take it that in each case, the answers 10:26:02 3 that Mr. Abdelhak gave you you thought were of 10:26:05 4 a satisfactory nature? 10:26:06 5 A. I did. 10:26:07 6 Q. Were there any other board members who were 10:26:12 7 involved in sort of pre-discussions about 10:26:17 8 acquisitions before the formal board meeting? 10:26:21 9 A. I don't know that. 10:26:22 10 Q. Were there other board members with whom you 10:26:25 11 had a practice of consulting in advance of 10:26:29 12 board meetings? 10:26:31 13 A. No, I didn't have a practice of doing that, no. 10:26:36 14 I did it possibly occasionally, but I didn't 10:26:39 15 make a general practice of it. 10:26:40 16 Q. And I take it then that at the regular board of 10:26:50 17 trustees meetings, there would be discussion of 10:26:55 18 at least the two aspects of proposed 10:26:58 19 acquisitions that you mentioned, that is, what 10:27:01 20 the proposed acquisition would bring to the 10:27:04 21 overall strategy and financial implications of 10:27:06 22 the acquisition? 10:27:07 23 A. Yes, and what it would mean, in some cases, to 10:27:15 24 Allegheny General because of the implication of 10:27:17 25 teaching.</p>

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11:27:15	1 MR. WHITNEY: Objection. Vague.	11:29:48	1 been working very hard. We have to get the
11:27:15	2 THE WITNESS: What are we doing here?	11:29:50	2 earnings up in this corporation?
11:27:18	3 MR. MCCLENAHAN: Also, I have the	11:29:52	3 A. Yes.
11:27:19	4 same objection. Do you want him to answer the	11:29:53	4 Q. Do you recall Mr. Barnes making comments of
11:27:24	5 question that you posed?	11:29:58	5 that type?
11:27:26	6 MR. RYAN: Could you read it back,	11:29:58	6 A. No.
11:27:27	7 please, while I listen to the question?	11:29:59	7 Q. Did you hold the view that earnings at AHERF in
	8 ----	11:30:09	8 fiscal year 1996 were unimpressive?
	9 (The record was read back by the Reporter.)	11:30:11	9 A. Yes.
	10 ----	11:30:12	10 Q. And was it your view at the time that
11:27:49	11 MR. RYAN: All right. Let me ask,	11:30:15	11 management had been working very hard and that
11:27:51	12 maybe, a better question.	11:30:18	12 the organization had to get the earnings up?
	13 BY MR. RYAN:	11:30:20	13 A. Yes.
11:27:55	14 Q. Did you have an understanding as to what	11:30:20	14 Q. Do you see the next sentence reads: There
11:28:00	15 financial measure in particular Mr. Barnes was	11:30:25	15 tends to be a casual atmosphere on this issue?
11:28:03	16 concerned about?	11:30:31	16 A. Yes, I see that.
11:28:04	17 MR. MCCLENAHAN: You mean on	11:30:32	17 Q. Do you have any understanding as to what that
11:28:04	18 December 2, 1996, because that's the document	11:30:35	18 might refer to?
11:28:09	19 we've been talking about?	11:30:36	19 MR. MCCLENAHAN: You mean what
11:28:13	20 MR. RYAN: Well, I wasn't trying to	11:30:37	20 Mr. Barnes meant?
11:28:16	21 limit it. Let me step back one step again.	11:30:38	21 MR. RYAN: Yes.
11:28:19	22 BY MR. RYAN:	11:30:39	22 A. Yes. I thought Mr. Barnes felt that way.
11:28:19	23 Q. If I understood you right, you can recall there	11:30:42	23 Q. Do you know what he meant by that? A casual
11:28:23	24 being concern on the part of Mr. Barnes about	11:30:46	24 atmosphere on whose part?
11:28:26	25 the fiscal year 1996 results?	11:30:50	25 A. No, I don't know what he meant by it.
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11:28:28	1 A. Correct.	11:30:53	1 Q. Was it your understanding at the time that
11:28:29	2 Q. And he expressed that concern at some board	11:31:19	2 AHERF management believed that the strategies
11:28:34	3 meeting or meetings that you attended?	11:31:22	3 it had put in place of acquiring hospitals and
11:28:36	4 A. Yes.	11:31:27	4 physician practices would help to improve the
11:28:36	5 Q. And did you have an understanding at that time	11:31:30	5 earnings going forward?
11:28:41	6 about which measure on financial statements	11:31:31	6 A. Yes.
11:28:44	7 Mr. Barnes was particularly concerned about?	11:31:32	7 Q. And how did you believe that that would happen?
11:28:47	8 A. No. All I say is he was concerned about the	11:31:41	8 Through increased patient referrals or --
11:28:51	9 lack of profitability and the lack of cash on	11:31:45	9 A. Yes.
11:28:55	10 hand.	11:31:46	10 Q. Do you recall there being at AHERF at some
11:28:55	11 Q. And did you share Mr. Barnes' concerns?	11:32:14	11 point in time a centralization of certain
11:29:01	12 A. At that time, yes.	11:32:20	12 support functions to Pittsburgh?
11:29:03	13 Q. Do you know whether any other members of the	11:32:21	13 A. Yes.
11:29:09	14 AHERF board did or did not share those	11:32:21	14 Q. And what do you recall about that
11:29:10	15 concerns?	11:32:28	15 centralization project?
11:29:12	16 A. No, I don't.	11:32:32	16 A. Well, I recall that Sherif felt that we should
11:29:13	17 Q. From talking to Sherif Abdelhak, do you know	11:32:39	17 centralize a lot of the operations and
11:29:19	18 whether he shared those concerns, or did he	11:32:43	18 decisions in Pittsburgh as the -- to get a
11:29:21	19 have a different view from Mr. Barnes, if you	11:32:50	19 better focus on what was going on in the
11:29:27	20 know?	11:32:52	20 overall picture.
11:29:27	21 A. I don't know. Whatever I say would be	11:32:54	21 Q. Was the hope, in your understanding, to have
11:29:31	22 speculation. I don't know.	11:33:02	22 economies of scale?
11:29:36	23 Q. Do you see that the comments attributed to	11:33:03	23 A. Oh, absolutely.
11:29:40	24 Mr. Barnes go on to say: Quantitatively,	11:33:04	24 Q. And was it your understanding that among the
11:29:44	25 earnings were unimpressive. Management has	11:33:10	25 functions that were being consolidated back to

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11:33:13 1 Pittsburgh was the collection of patient bills?
 11:33:18 2 A. Patient bills?
 11:33:19 3 Q. Yes.
 11:33:19 4 A. Yes. Yes.
 11:33:21 5 Q. Did you come to learn how that project of
 11:33:31 6 centralizing patient billing had gone?
 11:33:36 7 A. I don't know what you mean had gone. Do you
 11:33:39 8 mean whether it improved the situation?
 11:33:41 9 Q. Whether it had worked out or not, yes.
 11:33:45 10 A. I don't recall.
 11:33:45 11 Q. Let me hand you, Mr. Snyder, what's previously
 11:34:32 12 been marked as Exhibit 80, and if you could
 11:34:58 13 just take a moment to review at least the cover
 11:35:00 14 letter.
 11:35:27 15 A. All right.
 11:35:28 16 Q. Do you recall receiving a copy of this letter
 11:35:35 17 from Mr. Abdelhak dated August 2, 1996
 11:35:40 18 regarding the acquisition of the Graduate
 11:35:42 19 Health System?
 11:35:43 20 A. No. No, I don't recall.
 11:35:46 21 Q. Do you recall that at some point in time AHERF
 11:35:49 22 did acquire hospitals in the Graduate Health
 11:35:51 23 System?
 11:35:51 24 A. Oh, yes.
 11:35:52 25 Q. And what do you recall about why AHERF made

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11:40:09 1 A. Okay.
 11:40:10 2 Q. Has this helped at all to bring back two
 11:40:16 3 reasons why AHERF was acquiring Graduate?
 11:40:18 4 A. Yes. Yes.
 11:40:19 5 Q. All right. And what reasons are those?
 11:40:21 6 A. What's your question?
 11:40:22 7 Q. Based on having now reviewed this overview,
 11:40:29 8 what reasons do you recall AHERF having for
 11:40:34 9 making the Graduate acquisition?
 11:40:37 10 A. There again, I believe for the same reason, to
 11:41:00 11 provide more patients for all the hospitals.
 11:41:13 12 Q. So that the idea was that by increasing in
 11:41:17 13 size, the acquisition would improve the overall
 11:41:21 14 financial strength of the eastern region?
 11:41:24 15 A. More economies of scale.
 11:41:26 16 Q. Okay. Economies of scale with the Graduate
 11:41:29 17 hospitals and the existing hospitals in the
 11:41:31 18 eastern region?
 11:41:32 19 A. That's correct. Just in the east.
 11:41:36 20 Q. So that would be the hospitals we've talked
 11:41:38 21 about, MCP, United and Hahnemann?
 11:41:40 22 A. Hahnemann, yes.
 11:41:41 23 Q. Do you recall that AHERF was making the
 11:41:50 24 Graduate acquisition through a corporation
 11:41:55 25 called SDN, Inc.?

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11:35:58 1 that acquisition?
 11:36:05 2 A. I don't know. I'd have to go back and read a
 11:36:15 3 lot more about it before I could tell you why
 11:36:18 4 we tried to acquire Graduate.
 11:36:19 5 Q. Do you see here in Exhibit 80, in
 11:36:45 6 Mr. Abdelhak's letter, the third sentence
 11:36:48 7 reads: I consulted extensively with Bill
 11:36:53 8 Snyder, and he is in full agreement with the
 11:36:55 9 proposed action?
 11:36:56 10 A. Yes.
 11:36:56 11 Q. Do you remember anything about Mr. Abdelhak
 11:37:03 12 consulting with you?
 11:37:06 13 MR. WHITNEY: About Graduate?
 11:37:07 14 MR. RYAN: Yes.
 11:37:10 15 A. All I can remember is that he consulted with me
 11:37:14 16 about that and all the rest of the hospitals.
 11:37:20 17 He says in here, the -- extensively is the word
 11:37:31 18 he uses, so I assume that he talked to me a lot
 11:37:34 19 about it.
 11:37:35 20 Q. Why don't -- if you would, why don't you take a
 11:37:38 21 moment to review the next two pages --
 11:37:39 22 A. All right.
 11:37:40 23 Q. -- which are entitled Overview of Proposal for
 11:37:44 24 Certain Graduate Health System Entities to
 11:37:45 25 Become Part of SDN, Inc.

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11:41:58 1 A. Yes.
 11:41:59 2 MR. WHITNEY: Objection. Foundation.
 11:42:00 3 Q. And what do you recall about that?
 11:42:03 4 A. I recall, as far as I can remember, was that it
 11:42:15 5 was an effort to not put more debt on the AHERF
 11:42:20 6 balance sheet and to have it over to the side,
 11:42:25 7 but reserving the right to put that hospital
 11:42:27 8 into the AHERF family when the time seemed
 11:42:32 9 appropriate.
 11:42:32 10 Q. And you didn't believe, did you, that there was
 11:42:36 11 anything improper about the use of SDN, Inc.?
 11:42:41 12 A. It worried me, but I asked Nancy, and she said
 11:42:46 13 she thought it was perfectly legal.
 11:42:47 14 Q. When you say that it worried you, what worried
 11:42:50 15 you about it?
 11:42:50 16 A. Well, just from what you said. Why are we
 11:42:53 17 doing things off to the side? I'm always leery
 11:42:58 18 of off-balance sheet things, and this was an
 11:43:05 19 idea that -- I don't know who hatched this
 11:43:07 20 idea, whether it was Sherif or Nancy or who it
 11:43:10 21 was, but --
 11:43:11 22 Q. All right. So you consulted with Ms. Wynstra
 11:43:14 23 about it?
 11:43:14 24 A. Yes, in conjunction with Sherif.
 11:43:17 25 Q. And she told you that this was a perfectly

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<p>11:43:22 1 legal mechanism?</p> <p>11:43:23 2 A. Yes.</p> <p>11:43:23 3 Q. Do you recall anything else that she may have</p> <p>11:43:25 4 told you about SDN?</p> <p>11:43:28 5 A. No.</p> <p>11:43:29 6 Q. Did you consult at all with Coopers & Lybrand</p> <p>11:43:34 7 about SDN?</p> <p>11:43:36 8 A. No.</p> <p>11:43:36 9 Q. Did you consult with Coopers & Lybrand about</p> <p>11:43:43 10 the Graduate acquisition in general?</p> <p>11:43:47 11 A. No.</p> <p>11:43:47 12 Q. If you take a look, please, it's the page with</p> <p>11:44:01 13 number -- the number ending in 2668, using</p> <p>11:44:05 14 these little numbers in the bottom right, these</p> <p>11:44:08 15 Bates numbers.</p> <p>11:44:10 16 A. 2668. I've got it.</p> <p>11:44:12 17 Q. Are you with me on a schedule called Actual</p> <p>11:44:16 18 Statement of Revenue and Expenses 11 Months</p> <p>11:44:19 19 Ended May 31, 1996?</p> <p>11:44:21 20 A. Yes, sir.</p> <p>11:44:21 21 Q. Do you know whether you reviewed this kind of</p> <p>11:44:25 22 financial information for the Graduate</p> <p>11:44:26 23 hospitals prior to the acquisition?</p> <p>11:44:29 24 MR. MCCLENAHAN: Objection to the</p> <p>11:44:30 25 form. What do you mean by this kind of</p>	<p>11:46:15 1 into AHERF.</p> <p>11:46:15 2 Q. Oh, I see.</p> <p>11:46:17 3 A. I mean, that was left open.</p> <p>11:46:21 4 Q. Was there a discussion of whether it would be</p> <p>11:46:28 5 all of the Graduate hospitals or none or if</p> <p>11:46:32 6 some hospitals might be selected to be</p> <p>11:46:35 7 integrated into the system?</p> <p>11:46:35 8 A. Yes, there was discussion of what entities we</p> <p>11:46:40 9 should acquire.</p> <p>11:46:41 10 Q. And what do you recall about that?</p> <p>11:46:43 11 A. I don't remember what they were, but I remember</p> <p>11:46:45 12 there was people talking about one and the</p> <p>11:46:48 13 other.</p> <p>11:46:48 14 Q. There was a view that certain hospitals might</p> <p>11:46:50 15 not be as desirable as other hospitals?</p> <p>11:46:53 16 A. Right. Right.</p> <p>11:46:53 17 Q. Who then was going to decide which of the</p> <p>11:47:05 18 Graduate hospitals would be integrated into</p> <p>11:47:09 19 AHERF?</p> <p>11:47:09 20 A. I would assume Sheriff. Assume. I say it was</p> <p>11:47:19 21 Sheriff that would decide that.</p> <p>11:47:20 22 Q. And do you recall that the board of trustees</p> <p>11:47:22 23 gave him authority to make that decision?</p> <p>11:47:24 24 A. No, I don't recall that.</p> <p>11:47:25 25 Q. Let me hand you, Mr. Snyder, what's previously</p>
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<p>11:44:34 1 financial information? You mean did he review</p> <p>11:44:35 2 this particular sheet?</p> <p>11:44:39 3 Q. Do you know whether you reviewed an income</p> <p>11:44:43 4 statement, whether it was this schedule or</p> <p>11:44:47 5 another income statement schedule, for the</p> <p>11:44:49 6 Graduate hospitals before the acquisition?</p> <p>11:44:51 7 A. I don't recall.</p> <p>11:45:00 8 Q. And this schedule appears to show a net loss</p> <p>11:45:10 9 for this 11-month period of \$9,697,000?</p> <p>11:45:17 10 A. That's what it shows.</p> <p>11:45:19 11 Q. And two rows up, a loss from operations of</p> <p>11:45:23 12 \$20,124,000?</p> <p>11:45:26 13 A. Yes.</p> <p>11:45:27 14 Q. Do you recall a discussion at the board of</p> <p>11:45:34 15 trustees about how the Graduate hospitals were</p> <p>11:45:37 16 doing in terms of their financial condition?</p> <p>11:45:41 17 A. No. I don't remember that discussed.</p> <p>11:45:45 18 Q. I think you mentioned in the context of SDN</p> <p>11:45:51 19 that you do recall that there was a possibility</p> <p>11:45:55 20 that only certain of the Graduate hospitals and</p> <p>11:45:58 21 not all of them would be integrated into AHERF,</p> <p>11:46:06 22 is that right?</p> <p>11:46:06 23 A. That isn't what we were talking about. We were</p> <p>11:46:09 24 talking about, I said, it was possible in the</p> <p>11:46:11 25 future that the hospitals could be integrated</p>	<p>11:47:52 1 been marked as Exhibit 832, and let me just ask</p> <p>11:48:15 2 you first does this appear to be a copy of the</p> <p>11:48:17 3 minutes of what's referred to as the Annual</p> <p>11:48:21 4 Meeting of the Board of Trustees of AHERF held</p> <p>11:48:23 5 on Thursday, December 12, 1996?</p> <p>11:48:25 6 A. It does.</p> <p>11:48:27 7 Q. And what I'd like to call your attention to, if</p> <p>11:48:33 8 I could, is beginning on page 4, the section</p> <p>11:48:39 9 headed Reorganization of Certain Graduate</p> <p>11:48:42 10 Health System Entities, and then there are a</p> <p>11:48:46 11 number of resolutions that continue on to</p> <p>11:48:49 12 page 10.</p> <p>11:50:13 13 A. Yeah. Okay.</p> <p>11:50:14 14 Q. Let me ask you first, since I don't have the</p> <p>11:50:18 15 benefit for this meeting of the type of</p> <p>11:50:22 16 transcription of shorthand notes that we saw</p> <p>11:50:24 17 earlier, does a review of the minutes here that</p> <p>11:50:30 18 you've just looked at help you to recall what</p> <p>11:50:33 19 was said at this meeting about the Graduate</p> <p>11:50:37 20 acquisition?</p> <p>11:50:38 21 A. Not too much, no.</p> <p>11:50:40 22 Q. Do you recall any member of the board of</p> <p>11:50:46 23 trustees speaking against the Graduate</p> <p>11:50:50 24 acquisition?</p> <p>11:50:58 25 A. No, I don't recall that. I'd like to help</p>

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11:51:03 1 there, but I don't recall that.
 11:51:04 2 Q. Do you recall any member of the board raising
 11:51:10 3 any questions or concerns about the acquisition
 11:51:14 4 even if it didn't rise to the level of speaking
 11:51:17 5 against it, so to speak?
 11:51:24 6 A. Well, there's a difference between recalling
 11:51:26 7 exactly what we're talking about and the
 11:51:32 8 impression left in my mind about these
 11:51:36 9 acquisitions. That's all I can say. There's a
 11:51:39 10 difference there, but since I can't be
 11:51:41 11 specific, I can't answer that.
 11:51:45 12 Q. Do you remember any trustee raising with you
 11:51:57 13 the issue of the fact that AHERF management had
 11:52:02 14 announced the acquisition of the Graduate
 11:52:04 15 hospitals before consulting with the full
 11:52:16 16 board?
 11:52:16 17 A. No.
 11:52:17 18 Q. And you're shown as being present at this
 11:52:36 19 meeting of the board, right?
 11:52:37 20 A. I was there, yes.
 11:52:38 21 Q. And I assume that you voted in favor of the
 11:52:44 22 resolutions --
 11:52:45 23 A. Yes.
 11:52:45 24 Q. -- relating to the Graduate acquisition?
 11:52:50 25 A. Well, I guess I did if the minutes show it.

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11:52:56 1 There was no objection on my part.
 11:53:01 2 You have to understand that these
 11:53:10 3 video conferences were tough. You couldn't see
 11:53:12 4 the people on the other side, on the
 11:53:14 5 Philadelphia side, and it made it very hard, I
 11:53:19 6 thought, to conduct a proper meeting, but
 11:53:22 7 that's what we did.
 11:53:22 8 Q. Okay. So let me make sure that I understand
 11:53:25 9 this. There were certain trustees present in a
 11:53:28 10 conference room in Pittsburgh and others
 11:53:30 11 present in a conference room in Philadelphia?
 11:53:32 12 A. Correct.
 11:53:32 13 Q. And then there was some sort of video
 11:53:35 14 conferencing technology used so that you
 11:53:41 15 sitting in Pittsburgh could, in effect, see the
 11:53:43 16 trustees in Philadelphia on a T.V. screen
 11:53:45 17 basically?
 11:53:45 18 A. On a T.V. screen, right. It was the Sony
 11:53:49 19 system, and it was in the early stages, and it
 11:53:51 20 was only fairly good in my opinion.
 11:54:03 21 Q. I assume that Mr. Abdelhak would have been in
 11:54:07 22 Pittsburgh, at least generally, at these board
 11:54:10 23 meetings, is that right?
 11:54:11 24 A. Yes. I don't know whether he was in this one
 11:54:14 25 or not, but he generally was in Pittsburgh,

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11:54:17 1 yes. Well, you can't tell from this.
 11:54:20 2 Q. Right. I don't believe that it indicates who
 11:54:23 3 was where.
 11:54:25 4 A. What do those check marks mean?
 11:54:28 5 Q. I don't know. That I cannot tell you.
 11:54:33 6 A. I'll tell you what I think they mean, that the
 11:54:37 7 check marks were in Pittsburgh, and the ones
 11:54:41 8 that are unchecked were in Philadelphia.
 11:54:42 9 That's just a guess, but it looks like
 11:54:44 10 it, because -- no, that wouldn't be right
 11:54:46 11 either, because I was in Pittsburgh. So I
 11:54:48 12 don't know what they are.
 11:54:49 13 Q. This is just a copy how we found it in AHERF's
 11:54:54 14 files.
 11:54:54 15 A. Um-hum.
 11:54:56 16 Q. Do you remember any trustee asking any
 11:55:12 17 questions about whether AHERF's financial
 11:55:16 18 condition was such that the organization could
 11:55:18 19 afford to make the Graduate acquisition?
 11:55:21 20 A. No.
 11:55:23 21 Q. Do you know what any other members of AHERF
 11:55:32 22 management, apart from Sherif Abdelhak, may
 11:55:35 23 have thought about the Graduate acquisition?
 11:55:37 24 A. No.
 11:55:39 25 Q. I think you mentioned that you recall speaking

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11:55:43 1 to Ms. Wynstra at least about the SDN matter?
 11:55:47 2 A. SDN, yes. Yes.
 11:55:48 3 Q. Did you talk with her about the Graduate
 11:55:50 4 acquisition generally?
 11:55:51 5 A. No. No, no.
 11:55:57 6 Q. Did you have a practice at all of consulting
 11:56:04 7 with Dr. Kaye about acquisitions in the eastern
 11:56:08 8 region?
 11:56:08 9 A. No. The only thing I did with Dr. Kaye is he
 11:56:17 10 cured me of malaria. If it hadn't been for
 11:56:21 11 Dr. Kaye, I would not be sitting here today.
 11:56:24 12 Q. Well, that's certainly a testament to his
 11:56:29 13 medical skill.
 11:56:31 14 Do you recall -- and if I asked you
 11:56:40 15 this this morning, please forgive me. Do you
 11:56:42 16 recall if there was an executive committee of
 11:56:45 17 the board?
 11:56:45 18 A. Executive committee report on this?
 11:56:49 19 Q. Executive committee of the board?
 11:56:51 20 A. Oh, yes, yes. Yeah.
 11:56:53 21 Q. How was that committee formed?
 11:56:56 22 A. I don't know. I'd like to see a copy of the
 11:56:59 23 members, because I've even forgotten that.
 11:57:03 24 Q. I'll hand that to you just now.
 11:57:11 25 A. Now, you haven't brought up any minutes of

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14:26:59 1 Q. And the idea was that AHERF would sell those
 14:27:02 2 assets, lease them back so it could continue to
 14:27:05 3 use them, and --
 14:27:06 4 A. Get the cash and continue to use the facility.
 14:27:11 5 Q. Right. Do you know why that sale/leaseback
 14:27:14 6 ended up falling through?
 14:27:14 7 A. Ended up how?
 14:27:16 8 Q. Falling through.
 14:27:27 9 A. No, I don't. I do recall that one of the
 14:27:32 10 trustees was very much against it, because they
 14:27:36 11 felt it was short-term versus long-term, and
 14:27:44 12 that we'd lose out in the end.
 14:27:46 13 Q. Do you recall who that trustee was?
 14:27:48 14 A. No, I don't. No.
 14:28:04 15 Q. Do you know ultimately, though, why that
 14:28:08 16 sale/leaseback didn't end up going through?
 14:28:10 17 A. Why it didn't go through?
 14:28:12 18 Q. Right.
 14:28:14 19 MR. MCCLENAHAN: He just testified
 14:28:15 20 that he didn't know.
 14:28:16 21 MR. RYAN: Oh, I'm sorry.
 14:28:17 22 A. No, I didn't know. I don't remember, no
 14:28:20 23 Q. Do you recall that another measure AHERF
 14:28:24 24 management was engaged in to try to raise cash
 14:28:26 25 was to sell accounts receivable?

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14:28:35 1 A. I remember there was a discussion of it. I
 14:28:37 2 don't remember whether we did it or not.
 14:28:39 3 Q. And was it your understanding, there again,
 14:28:42 4 that the idea would be to get cash in the
 14:28:45 5 short-term?
 14:28:46 6 A. Right.
 14:28:48 7 Q. Was it your feeling at this time in the fall of
 14:28:56 8 1997 into the spring of 1998 that AHERF
 14:29:01 9 management was undertaking a number of
 14:29:05 10 proactive measures to try to improve the
 14:29:08 11 organization's condition?
 14:29:13 12 A. Absolutely.
 14:29:14 13 Q. And did you approve of the measures that they
 14:29:18 14 were undertaking?
 14:29:20 15 A. Did I personally approve of them?
 14:29:22 16 Q. Yes, sir.
 14:29:23 17 MR. MCCLENAHAN: I mean, I will
 14:29:25 18 object to the question as vague. You've listed
 14:29:28 19 a number of such measures. There may be other
 14:29:33 20 measures, and I'm not sure whether he would
 14:29:36 21 give the same answer as to each and every one.
 14:29:38 22 A. Yes, that's very true. I approved of the
 14:29:42 23 leaseback sale, and what other ones are you
 14:29:46 24 referring to? Accounts receivable?
 14:29:52 25 Q. Yes. The layoffs, the closing of Mt. Sinai

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14:29:57 1 Hospital, the other cost reductions --
 14:29:58 2 A. I approved of those, yes.
 14:30:01 3 Q. -- and the sale of the eastern hospitals to
 14:30:03 4 Vanguard?
 14:30:04 5 A. Yes.
 14:30:05 6 Q. Do you recall that in April 1998, AHERF repaid
 14:30:14 7 a loan from the Mellon Bank?
 14:30:15 8 A. Yes, I do.
 14:30:16 9 Q. And what do you recall about that?
 14:30:18 10 A. All I could tell you about that is that Sherif
 14:30:23 11 came to see me one morning early in my office
 14:30:28 12 and said he was forced to pay the Mellon Bank
 14:30:31 13 off. I don't remember the figure, but it sort
 14:30:33 14 of runs in my mind it was \$98 million. I may
 14:30:38 15 be wrong on that by now, but that's a figure
 14:30:42 16 that's in the back of my head, and that he had
 14:30:44 17 to do it or the Mellon Bank was going to
 14:30:46 18 foreclose. That's all I can remember. And I
 14:30:49 19 said to him, I think you should have taken that
 14:30:53 20 to the board before you took such drastic
 14:30:55 21 action. He said he didn't have time.
 14:30:56 22 Q. Why did you consider that to be drastic action?
 14:31:00 23 A. Well, we had all kinds of other debts, and just
 14:31:04 24 to single out one creditor and pay them back
 14:31:07 25 didn't seem right without full authority.

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14:31:14 1 Q. And when you made this point to him, his
 14:31:21 2 response was that he hadn't had time?
 14:31:23 3 A. He had no time. He said he was given an hour
 14:31:27 4 or something like that to make up his mind.
 14:31:30 5 Q. Did you then talk about this Mellon Bank
 14:31:35 6 repayment with anyone else besides
 14:31:37 7 Mr. Abdelhak?
 14:31:40 8 A. Well, it became a matter of general discussion
 14:31:43 9 immediately among -- at all the meetings, but I
 14:31:49 10 don't think that I specifically called anybody
 14:31:51 11 and said, hey, we just paid the Mellon Bank
 14:31:54 12 back.
 14:31:54 13 Q. And when you say at meetings, you're talking
 14:31:57 14 about meetings of the board or of committees of
 14:32:01 15 the board?
 14:32:01 16 A. Yes. Right.
 14:32:02 17 Q. And what was the nature of that discussion?
 14:32:04 18 A. Well, the propriety of doing it and how much
 14:32:17 19 time did we really have? Did the Mellon Bank
 14:32:20 20 really put the squeeze on us? That's about it.
 14:32:23 21 Q. And were there trustees who expressed the view
 14:32:28 22 that Mr. Abdelhak should not have repaid the
 14:32:31 23 loan?
 14:32:33 24 A. I don't remember if there was anybody that said
 14:32:37 25 they disapproved of it. I think they

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<p>14:32:40 1 disapproved of the manner in which it was done</p> <p>14:32:43 2 so quickly.</p> <p>14:32:43 3 Q. Without consulting the board?</p> <p>14:32:45 4 A. Without consulting the proper authorities. It</p> <p>14:32:51 5 was a lot of money.</p> <p>14:32:52 6 Q. And did you also personally believe that</p> <p>14:33:00 7 Mr. Abdelhak should have consulted the board?</p> <p>14:33:01 8 A. Yes.</p> <p>14:33:02 9 Q. Did Mr. Abdelhak's handling of the Mellon Bank</p> <p>14:33:14 10 repayment play a role in his being replaced as</p> <p>14:33:20 11 chief executive officer of AHERF?</p> <p>14:33:22 12 A. The answer is that, among others.</p> <p>14:33:32 13 Q. What were the other factors as you understood</p> <p>14:33:36 14 them?</p> <p>14:33:36 15 A. Well, the condition of the corporation as a</p> <p>14:33:43 16 whole and his handling of it. Where are we now</p> <p>14:33:51 17 in the time frame? When was bankruptcy? What</p> <p>14:33:55 18 was the end date?</p> <p>14:33:56 19 Q. The bankruptcy, I think I can tell you, was</p> <p>14:34:00 20 filed on July 21, 1998.</p> <p>14:34:02 21 A. So what we're talking about is how many months</p> <p>14:34:04 22 before then?</p> <p>14:34:06 23 Q. The Mellon Bank repayment?</p> <p>14:34:09 24 A. Yeah</p> <p>14:34:10 25 Q. I think it was three months before that.</p>	<p>14:35:35 1 Q. So the first event in the sequence of events.</p> <p>14:35:41 2 as you recall, was this meeting that you had</p> <p>14:35:43 3 with three Allegheny General Hospital doctors?</p> <p>14:35:47 4 A. This was the first what?</p> <p>14:35:47 5 MR. MCCLENAHAN: That would depend on</p> <p>14:35:48 6 when you begin the sequence</p> <p>14:35:52 7 Q. The first event in the series of events that</p> <p>14:35:56 8 led to Mr. Abdelhak being fired was a meeting</p> <p>14:35:58 9 you had with three Allegheny General doctors?</p> <p>14:36:00 10 A. Yes, that was the first. Yes.</p> <p>14:36:02 11 Q. Who were those doctors?</p> <p>14:36:04 12 A. Dr. McGovern, Jr., Dr. Shannon, Richard</p> <p>14:36:11 13 Shannon, and Dr. Jeffrey Cohen.</p> <p>14:36:15 14 Q. Could you spell that last one, please?</p> <p>14:36:18 15 A. C-O-H-E-N. He's chief of urology. Still is.</p> <p>14:36:25 16 Q. And where did this meeting with the doctors</p> <p>14:36:31 17 take place?</p> <p>14:36:31 18 A. At Dr. Shannon's house in Sewickley.</p> <p>14:36:34 19 Q. And who called the meeting, so to speak?</p> <p>14:36:44 20 A. It was Dr. Shannon called me, I believe, on</p> <p>14:36:47 21 Saturday and asked if I could meet tomorrow</p> <p>14:36:50 22 afternoon, and I said certainly.</p> <p>14:36:52 23 Q. And the meeting lasted --</p> <p>14:36:56 24 A. For three hours</p> <p>14:36:57 25 Q. And what issues did the three doctors raise</p>
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<p>14:34:12 1 A. Three months. Okay. I just want to get the</p> <p>14:34:14 2 time frame in my head.</p> <p>14:34:15 3 Q. So you've mentioned, I think, as factors for</p> <p>14:34:18 4 why Mr. Abdelhak was replaced, his handling of</p> <p>14:34:21 5 the repayment of the Mellon Bank loan, and then</p> <p>14:34:23 6 the condition of the corporation as a whole and</p> <p>14:34:25 7 his handling of that?</p> <p>14:34:28 8 A. The condition of the whole situation. We were</p> <p>14:34:32 9 in dire straits.</p> <p>14:34:36 10 Q. Who decided to replace Mr. Abdelhak as CEO?</p> <p>14:34:42 11 A. I did, with consultation with some of the</p> <p>14:34:46 12 senior board members.</p> <p>14:34:48 13 I had a meeting with three other</p> <p>14:34:51 14 senior doctors on a Sunday afternoon, and they</p> <p>14:34:57 15 said that they were going to leave and pull a</p> <p>14:34:59 16 lot of the doctors out of Allegheny with them</p> <p>14:35:02 17 if Abdelhak didn't go. It was about a</p> <p>14:35:05 18 three-hour meeting. Then when I got back from</p> <p>14:35:08 19 that meeting, I called a number of the leading</p> <p>14:35:12 20 trustees and asked them what they thought, and</p> <p>14:35:14 21 they all said we think he should go. So I</p> <p>14:35:20 22 didn't see him on Monday because of some</p> <p>14:35:24 23 reason, I don't know whether his or mine, but,</p> <p>14:35:26 24 anyway, I called him down to the office on</p> <p>14:35:28 25 Tuesday and fired him.</p>	<p>14:37:03 1 with you in the meeting?</p> <p>14:37:05 2 A. Well, they mostly said the damage that happened</p> <p>14:37:11 3 to Allegheny General, that was their main beef,</p> <p>14:37:15 4 because they were all Allegheny General</p> <p>14:37:17 5 Hospital, and they thought that the hospital</p> <p>14:37:19 6 was being put in a very -- had been put in an</p> <p>14:37:23 7 extremely bad position, and it was getting</p> <p>14:37:25 8 worse every day, and that they weren't going to</p> <p>14:37:28 9 stay if he stayed.</p> <p>14:37:30 10 Q. Dr. Cohen, I think you mentioned, was the chief</p> <p>14:37:35 11 of urology?</p> <p>14:37:36 12 A. Yes. Dr. Shannon is chief of medicine.</p> <p>14:37:40 13 Q. And Dr. McGovern is a heart doctor?</p> <p>14:37:42 14 A. He's a thoracic surgeon.</p> <p>14:37:46 15 Q. And I take it that these were all three very</p> <p>14:37:53 16 eminent medical doctors?</p> <p>14:37:55 17 A. Yes, and all reasonably young. Not real young,</p> <p>14:38:02 18 but reasonably young.</p> <p>14:38:02 19 Q. And they told you that if Mr. Abdelhak wasn't</p> <p>14:38:10 20 fired, they would leave Allegheny General?</p> <p>14:38:12 21 A. If he wasn't what?</p> <p>14:38:13 22 Q. That if Mr. Abdelhak wasn't fired, they would</p> <p>14:38:17 23 leave Allegheny General Hospital?</p> <p>14:38:17 24 A. Yes, and take as many others with them as they</p> <p>14:38:20 25 could.</p>

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<p>14:38:20 1 Q. At this meeting that you had at Dr. Shannon's 14:38:27 2 house on Sunday afternoon, did you attempt to 14:38:30 3 argue with them or -- 14:38:31 4 A. No. No. I just let them talk and explain why 14:38:36 5 they felt that way and why others felt that 14:38:42 6 way. 14:38:42 7 Q. And I take it after that meeting, you then met 14:38:48 8 or called up some other board members? 14:38:50 9 A. Yes, I did. 14:38:51 10 Q. Who were they? 14:38:52 11 A. I called them on the phone. 14:38:54 12 Q. Who were they? 14:38:55 13 A. I know Barnes was one, and I think I talked to 14:39:09 14 Nimick and -- 14:39:13 15 Q. Francis Nimick? 14:39:14 16 A. Yes. I don't recall all who I called, I really 14:39:23 17 don't, but I called four or five of them. 14:39:25 18 Q. If we just look back at the minutes of the 14:39:32 19 executive committee, I don't know if that would 14:39:33 20 at all help you to refresh your recollection as 14:39:35 21 to which trustees you may have called. 14:39:38 22 A. Well, is that important to you to know which 14:39:40 23 ones? 14:39:40 24 Q. It is, yes. Yes, it is 14:39:43 25 A. I'll do my best</p>	<p>14:41:35 1 expressed when you called up these other board 14:41:37 2 members? 14:41:38 3 A. Yes, yes, yes. 14:41:38 4 Q. Do you recall what views, if any, they 14:41:42 5 expressed in these telephone calls with you? 14:41:43 6 A. Well, they all agreed. I do remember that. I 14:41:49 7 don't know what views they expressed, but they 14:41:51 8 agreed in one form or another. 14:41:53 9 Q. Do you remember any trustee coming to you 14:41:59 10 before this Sunday afternoon meeting at 14:42:03 11 Dr. Shannon's house -- 14:42:05 12 A. That's a very good question. 14:42:07 13 Q. -- to suggest that Mr. Abdelhak should be 14:42:07 14 replaced? 14:42:07 15 A. I can't give you a name, but it runs in the 14:42:20 16 back of my head that somebody did come to me 14:42:22 17 about that. I don't remember who it was, 14:42:24 18 though, and it certainly was in my mind too. 14:42:52 19 Q. Do you recall whether the topic of the 14:42:55 20 repayment of the Mellon Bank loan was part of 14:42:59 21 the conversation at Dr. Shannon's house? 14:43:02 22 A. I can't recall whether it was or not. That's a 14:43:13 23 good point, though. I just don't remember. 14:43:14 24 Q. And so then on Tuesday, you called Mr. Abdelhak 14:43:49 25 into your office and fired him?</p>
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<p>14:39:44 1 Q. It's Exhibit 1651 just a few exhibits ago 14:39:57 2 A. Danforth. Douglas Danforth. I know I called 14:40:02 3 him. I'm pretty sure I called Sculley. He's 14:40:19 4 my neighbor, and I trusted him a lot, but I 14:40:22 5 can't be certain, but I'm pretty sure I would 14:40:25 6 have called him. I don't know about Edelman. 14:40:28 7 I did not call Brenner, because he's in 14:40:30 8 Philadelphia. I'd say I called Barnes and 14:40:33 9 Danforth, Sculley, and maybe Edelman. 14:40:43 10 Q. And Mr. Nimick as well? 14:40:45 11 A. I think I called Nimick. I'm not positive of 14:40:49 12 that, but I think I did. He's an old -- very 14:40:55 13 old hand -- old head. 14:40:58 14 Q. And when you called these other board members, 14:41:07 15 I take it that you started off by explaining to 14:41:09 16 them what Dr. Shannon and the other doctors had 14:41:11 17 told you? 14:41:12 18 A. I opened the meeting -- the conversation with 14:41:17 19 my meeting with those four doctors and 14:41:21 20 explained what they said and how they felt, and 14:41:24 21 that I could heartily agree that it was time to 14:41:26 22 pull the plug on him. 14:41:29 23 Q. I'm sorry. I didn't quite hear that. 14:41:31 24 A. It wa. time for him to go. 14:41:32 25 Q. All right. So that was a view that you</p>	<p>14:43:51 1 A. Yes. 14:43:51 2 Q. And what did he say in this meeting? 14:43:57 3 A. You don't want to put that in the minutes. 14:44:00 4 Q. He was upset? 14:44:02 5 A. Oh, that's putting it very mildly. The main 14:44:07 6 thing he said to me was that I was making the 14:44:09 7 biggest mistake of my entire life, and he was 14:44:13 8 raving, climbing the walls, so to speak. 14:44:19 9 Q. Had you ever given any previous warning to him 14:44:27 10 that his job was in jeopardy? 14:44:31 11 A. No. No. 14:44:32 12 Q. Well, I think I may have marked this last week, 14:45:08 13 but I don't have the marked version here, so 14:45:13 14 I'll mark as Exhibit 1677 a one-page document 14:45:15 15 with Bates No. TACO 52826. 14:45:16 16 ---- 14:45:17 17 (Exhibit 1677 marked for identification.) 14:45:18 18 ---- 14:45:34 19 BY MR. RYAN: 14:45:34 20 Q. And if you could just take a moment to review 14:45:43 21 that, please, Mr. Snyder. 14:45:44 22 A. Yes, sir. 14:46:32 23 Q. And is this a letter that you sent to 14:46:34 24 Mr. Abdelhak dated June 5, 1998? 14:46:37 25 A. Yes.</p>

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14:46:37 1 Q. And I take it then this letter you more
 14:46:43 2 formally, in writing, advised him of a decision
 14:46:47 3 you had already told him about already?
 14:46:49 4 A. That's what it was for.
 14:46:50 5 Q. And do you recall that before you sent this
 14:46:55 6 letter, there was a meeting of the executive
 14:46:57 7 committee of the board to discuss it?
 14:47:00 8 A. Yes.
 14:47:00 9 Q. And what do you recall about that meeting?
 14:47:03 10 A. Nothing, except that, as far as I know, it was
 14:47:10 11 unanimous to go through with this.
 14:47:14 12 Q. And whom -- well, strike that.
 14:47:21 13 Who was selected to replace
 14:47:24 14 Mr. Abdelhak?
 14:47:26 15 A. Anthony Sanzo.
 14:47:28 16 Q. And who made that decision?
 14:47:29 17 A. Well, we had a meeting, a discussion about it,
 14:47:41 18 and I don't know whether it was in executive
 14:47:42 19 committee or what it was, but there were a
 14:47:44 20 number of people, trustees that were in on
 14:47:48 21 that. It was also my recommendation.
 14:47:51 22 Q. And why was Mr. Sanzo your --
 14:47:57 23 A. Well, he had all kinds of experience in this
 14:48:04 24 field, and he was known by all the trustees
 14:48:06 25 He reported at nearly all the board meetings

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14:48:11 1 They knew what he was about, what his mind was
 14:48:14 2 like, and he had done a very good job with
 14:48:18 3 Allegheny General, and, in my opinion, he was
 14:48:21 4 the obvious choice
 14:48:24 5 Q. Do you remember whether there were any trustees
 14:48:28 6 present at the meeting you're talking about
 14:48:30 7 who --
 14:48:31 8 A. Dissented?
 14:48:32 9 Q. Well, who suggested other candidates?
 14:48:34 10 A. No.
 14:48:35 11 Q. First of all?
 14:48:37 12 A. No.
 14:48:37 13 Q. And I take it that you don't recall any trustee
 14:48:40 14 voting against the appointment of Mr. Sanzo?
 14:48:42 15 A. No, sir.
 14:48:42 16 Q. Then I take it some time later, Mr. McConnell
 14:48:51 17 was removed as AHERF's chief financial officer?
 14:48:55 18 A. Yes, and I went over that. David wanted to
 14:49:01 19 know what I knew about that, and I don't recall
 14:49:03 20 it at all. I don't know who fired him or how
 14:49:06 21 that came about. I don't know why I don't. I
 14:49:09 22 just don't.
 14:49:09 23 Q. Okay.
 14:49:11 24 A. When did he depart? Some months later, I
 14:49:19 25 think.

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14:49:19 1 Q. The documents I have suggest later in June.
 2 I'm not sure.
 14:49:23 3 A. Early June?
 14:49:24 4 Q. Later in June. I'm not sure of the exact date
 14:49:27 5 myself.
 14:49:27 6 A. All right.
 14:49:28 7 Q. Does looking at this letter, Exhibit 1676,
 14:49:35 8 dated June 5 help you to place in time when
 14:49:42 9 this Sunday meeting took place at Dr. Shannon's
 14:49:57 10 house?
 14:49:57 11 A. No, but I would -- several weeks before, but I
 14:50:01 12 can't give you the specific date.
 14:50:03 13 Q. Okay. I'm just asking for some general idea?
 14:50:06 14 A. Yeah. It was several weeks before this.
 14:50:10 15 Actually, I'm trying to figure out who wrote
 14:50:12 16 this letter, I mean, actually constructed it,
 14:50:17 17 because everything is in here. I just don't
 14:50:24 18 know who constructed the letter.
 14:50:25 19 Q. But you actually signed the letter?
 14:50:27 20 A. Well, I agreed with everything it said, but I
 14:50:30 21 might have forgotten some of the things that we
 14:50:32 22 were obligated to do had I not had some advice,
 14:50:39 23 which is only normal. I mean, I --
 14:50:40 24 Q. Sure. Sure. It looks like it's a lawyer -- it
 14:50:45 25 uses the sort of legalese-type expression like

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14:50:49 1 a lawyer in the letter.
 14:50:49 2 A. Well, that's what I think. I think a lawyer
 14:50:50 3 wrote it.
 14:50:52 4 Q. Let me hand you, Mr. Snyder, what's previously
 14:51:18 5 been marked as Exhibit 1672, and there are a
 14:52:08 6 number of documents here, I believe, all from,
 14:52:12 7 roughly, the July 1998 time frame. I wanted to
 14:52:18 8 ask you, first, about the document beginning on
 14:52:24 9 page 3109, using the numbers in the bottom
 14:52:30 10 right corner
 14:52:38 11 A. Yes, sir.
 14:52:38 12 Q. Which is a July 7, 1998 letter to the members
 14:52:43 13 of the board of trustees of AHERF.
 14:52:47 14 A. Yes.
 14:52:49 15 Q. And it appears on the next page to be signed by
 14:52:51 16 representatives of PNC Bank National
 14:52:56 17 Association and of MBIA Insurance Corporation.
 14:52:59 18 A. Okay.
 14:53:00 19 Q. If you wouldn't mind just reading this
 14:53:04 20 page-and-a-half-long letter, please.
 14:54:58 21 A. Okay.
 14:54:58 22 Q. Do you recall that in July 1998, two of AHERF's
 14:55:09 23 creditors, namely PNC and MBIA, offered to
 14:55:15 24 provide financing to AHERF?
 14:55:16 25 A. Yes.

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14:55:17 1 Q. And what do you recall about that?

14:55:19 2 A. Well, I recall that nobody wanted to put the

14:55:29 3 western hospitals in jeopardy in this loan,

14:55:33 4 which, of course, is what it called for.

14:55:35 5 Q. When you say no one, you mean no one on the

14:55:44 6 board?

14:55:44 7 A. Generally speaking, the trustees did not like

14:55:48 8 the idea of putting the western hospitals up as

14:55:54 9 collateral.

14:55:54 10 Q. And that appears to be what PNC and MBIA are

14:56:09 11 referring to in the third paragraph when they

14:56:11 12 state --

14:56:11 13 A. Yes, it does. Yes.

14:56:12 14 Q. -- we have heard that the AHERF board has

14:56:15 15 recently expressed strong reservations with

14:56:17 16 respect to making the credit of the west

14:56:19 17 available to support the east?

14:56:20 18 A. Yes.

14:56:21 19 Q. They go on to state in this letter: The

14:56:24 20 board's current position is inconsistent with

14:56:27 21 its actions in the past and is particularly

14:56:31 22 unfortunate in view of the system-wide need for

14:56:33 23 financing.

14:56:33 24 A. Yeah.

14:56:36 25 Q. Did you have a view at the time about this view

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14:56:40 1 that PNC and MBIA were expressing?

14:56:46 2 A. Well, I thought it was unfortunate we'd have to

14:56:50 3 do that, but that's where we were.

14:56:54 4 Q. What view did you have as to whether the board

14:57:03 5 should make the credit of the west available

14:57:06 6 for the east?

14:57:08 7 A. Well, I don't remember how I felt at the time,

14:57:19 8 but I sort of remember that I was not in favor

14:57:23 9 of it.

14:57:26 10 Q. Why not?

14:57:27 11 A. Well, for the same reason. I wanted to

14:57:31 12 preserve the Allegheny General, not see it go

14:57:37 13 belly up along with all the rest. By that

14:57:44 14 time, it was sort of a foregone conclusion in

14:57:50 15 my mind that the ones in the east were in

14:57:51 16 terrible, terrible trouble and probably

14:57:54 17 couldn't be saved.

14:57:59 18 Q. Did you meet or talk by phone with

14:58:10 19 representatives of PNC Bank or MBIA in the July

14:58:16 20 1998 time frame?

14:58:17 21 A. I personally did not. I think most of those

14:58:21 22 negotiations were done through David.

14:58:23 23 Q. David Barnes?

14:58:25 24 A. McConnell.

14:58:26 25 Q. Oh, I see. McConnell.

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14:58:41 1 Your view, in effect, was you didn't

14:58:42 2 want to throw good money after bad?

14:58:46 3 MR. MCCLENAHAN: Well, objection.

14:58:47 4 That's your characterization, and I think

14:58:49 5 that's putting words into the witness' mouth.

14:58:51 6 He explained what his concerns were.

14:58:53 7 A. I told you what my concerns were, and it was

14:58:56 8 just that I wanted to save this one hospital.

14:58:59 9 Q. Allegheny General?

14:59:00 10 A. I wasn't sure, yes, how long it could last,

14:59:07 11 but --

14:59:09 12 Q. Let me ask you about another letter from MBIA

14:59:12 13 which is a few pages before that in this

14:59:15 14 exhibit. It's at the page ending in 3102.

14:59:21 15 A. 102?

14:59:22 16 Q. Yes, sir.

14:59:28 17 A. Okay.

14:59:30 18 Q. And if you could just take a moment to review

14:59:34 19 this letter from Richard Weill of MBIA.

15:00:56 20 A. All right.

15:00:59 21 Q. What I wanted to ask you about particularly is

15:01:04 22 the third paragraph where Mr. Weill writes:

15:01:09 23 Our advisors indicate that the sale of the

15:01:11 24 entire system would very likely yield a

15:01:15 25 purchase price well in excess of all the debt.

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15:01:18 1 Do you recall that?

15:01:20 2 A. I don't remember that statement.

15:01:22 3 Q. Do you recall more generally MBIA stating that

15:01:27 4 they thought the need for a bankruptcy filing

15:01:31 5 could be obviated or avoided by sale of the

15:01:34 6 entire system?

15:01:35 7 A. No, I don't remember that.

15:01:36 8 Q. Do you recall that ultimately the bankruptcy

15:01:59 9 filing was made for AHERF and certain of its

15:02:05 10 affiliates, but that the western hospitals were

15:02:06 11 kept out of bankruptcy?

15:02:08 12 A. Yes.

15:02:08 13 Q. And did you agree with that way of structuring

15:02:15 14 the bankruptcy filing?

15:02:16 15 A. Yes.

15:02:16 16 Q. And why did you think that that was

15:02:19 17 appropriate?

15:02:19 18 A. Well, for the same reason I gave you on others,

15:02:25 19 that we were able to preserve Allegheny

15:02:27 20 General.

15:02:27 21 Q. Did you have a view at the time as to what had

15:02:45 22 created the need for AHERF to file for

15:02:48 23 bankruptcy?

15:02:51 24 A. The numbers. They were bleak. There wasn't

15:02:59 25 much left.

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15:03:00 1 Q. And did you have a view as to what factor or
 15:03:04 2 factors had caused that condition at AHERF?
 15:03:08 3 A. There were so many of them that I couldn't sit
 15:03:14 4 and list them. There were a number of factors
 15:03:21 5 that, over a period of three years, arrive at
 15:03:24 6 this converging point.
 15:03:26 7 MR. MCCLENAHAN: We just spent five
 15:03:29 8 hours working through those factors.
 15:03:31 9 THE WITNESS: Yeah.
 15:03:31 10 MR. MCCLENAHAN: I mean, if you
 15:03:31 11 really expect the witness to answer that
 15:03:35 12 question after all this time, it seems to me we
 15:03:38 13 should go back over what we just spent the rest
 15:03:42 14 of the day working through.
 15:03:44 15 A. I can't give you all the reasons, but they were
 15:03:47 16 all written right in front of us. They're in
 15:03:48 17 that pile there.
 15:03:49 18 Q. The reasons are, generally speaking, the market
 15:03:52 19 factors and how AHERF acted in response to
 15:04:01 20 those factors?
 15:04:01 21 A. Yes.
 15:04:22 22 MR. MCCLENAHAN: Are you finished
 15:04:23 23 with this?
 15:04:24 24 MR. RYAN: Yes, I am
 15:04:25 25 BY MR. RYAN:

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15:06:32 1 A. Yes, I was concerned with that.
 15:06:35 2 Q. Did you think that there were too many members?
 15:06:38 3 A. Too many. Too many, yes.
 15:06:41 4 Q. How did you feel that that affected the board
 15:06:49 5 meetings?
 15:06:49 6 A. Well, I felt it made the board unwieldy, and we
 15:06:54 7 had so many people that we hardly had enough
 15:07:00 8 chairs, and I didn't think it was necessary to
 15:07:02 9 have all those people, but when you have that,
 15:07:07 10 you always worry about you're going to hurt
 15:07:10 11 somebody's feelings when you -- somebody that's
 15:07:16 12 important to you down the road, but you have to
 15:07:18 13 do it sometimes.
 15:07:19 14 Q. I think you mentioned previously that sometimes
 15:07:28 15 you thought that the volume of materials sent
 15:07:32 16 to board members prior to meetings was quite
 15:07:35 17 voluminous?
 15:07:36 18 A. Yes, sir.
 15:07:36 19 Q. Did board members make comments about couldn't
 15:07:43 20 we cut down on the volume of material?
 15:07:45 21 A. Always. Always. Many times.
 15:07:48 22 Q. And did that happen?
 15:07:50 23 A. Well, I think attempts were made. I don't
 15:07:58 24 think it happened very materially.
 15:08:01 25 Q. How far in advance of board meetings would you

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15:04:25 1 Q. Did you remain on the AHERF board after the
 15:04:33 2 bankruptcy filing?
 15:04:36 3 A. I don't know when I got off.
 15:04:39 4 Q. Was there a time when you left the board?
 15:04:42 5 A. Oh, sure, but I don't know exactly when it was.
 15:04:47 6 Does it show? I can't tell you.
 15:04:48 7 Q. I can't either.
 15:04:50 8 A. Really?
 15:04:51 9 Q. Yes.
 15:04:52 10 MR. MCCLENAHAN: That's enough. If
 15:04:54 11 you don't remember, all you need to do is say
 15:04:56 12 so, and then he'll ask you another question.
 15:04:58 13 A. I don't remember when I got off the board of
 15:05:01 14 AHERF.
 15:05:01 15 Q. Do you recall why you got off the board of
 15:05:06 16 AHERF?
 15:05:06 17 A. Yes, because I was no longer wanted or needed.
 15:05:25 18 Q. And was that a conclusion you reached or is
 15:05:29 19 that something that you were told by somebody?
 15:05:32 20 A. I don't believe so. I think I came to that
 15:05:37 21 myself. It was time to go.
 15:05:47 22 Q. Let me shift topics, if I could, and ask some
 15:06:06 23 questions about the board meetings. Did you
 15:06:25 24 have concern in the 1990's with the number of
 15:06:29 25 members on AHERF's board?

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15:08:11 1 receive board materials?
 15:08:12 2 A. Several days.
 15:08:14 3 Q. Did you feel that that was a long enough time
 15:08:19 4 in order to review those materials?
 15:08:20 5 A. At times, I thought so. Other times I didn't,
 15:08:30 6 depending on how important the subjects were
 15:08:33 7 under consideration.
 15:08:33 8 Q. Did you talk to anybody at AHERF about sending
 15:08:36 9 out materials farther in advance of meetings?
 15:08:43 10 A. I don't believe so.
 15:08:44 11 Q. Do you recall any board members raising that as
 15:08:49 12 a concern to you, the length of time they had
 15:08:53 13 to consider the materials?
 15:08:54 14 A. I believe I remember one or two saying that at
 15:09:04 15 times.
 15:09:10 16 Q. Did you believe that sometimes the AHERF board
 15:09:18 17 meetings didn't last as long as might have been
 15:09:22 18 helpful to get through all the material?
 15:09:31 19 A. Well, I think there were times it was cut
 15:09:34 20 short, but most of the time we covered the
 15:09:36 21 entire agenda.
 15:09:38 22 Remember, these people not only had
 15:09:39 23 these board meetings, but all of them were on
 15:09:42 24 committees, and they all had voluminous minutes
 15:09:45 25 to go through. So it was quite a bunch of

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<p>15:09:50 1 paper</p> <p>15:09:51 2 Q. Trust me, I've seen the bunch of paper.</p> <p>15:09:57 3 Were there efforts undertaken to try</p> <p>15:09:59 4 to reduce the number of boards and committees</p> <p>15:10:03 5 at AHERF?</p> <p>15:10:13 6 A. I don't remember. I think we made an attempt</p> <p>15:10:18 7 at that some time along the line.</p> <p>15:10:23 8 Q. Let me mark a new document as Exhibit 1678. It</p> <p>15:10:36 9 bears Bates Nos. PRPLD 02002244 through 49.</p> <p>10 -----</p> <p>11 (Exhibit 1678 marked for identification.)</p> <p>12 -----</p> <p>15:11:10 13 A. Oh, I forgot about this.</p> <p>15:12:20 14 Number 4 under meetings was something</p> <p>15:12:22 15 that I tried to promote all the time, but</p> <p>15:12:25 16 didn't have too much luck.</p> <p>15:12:30 17 Q. Oh, you're talking about short site visits?</p> <p>15:12:33 18 A. Yes. Sometimes you could get a few to come,</p> <p>15:12:38 19 but -- because I made site visits all the time,</p> <p>15:12:42 20 and I thought others should too.</p> <p>15:13:05 21 MR. MCCLENAHAN: Are there specific</p> <p>15:13:06 22 questions about this document?</p> <p>15:13:07 23 MR. RYAN: Yeah. I'm just -- I think</p> <p>15:13:09 24 the witness is almost through looking through</p> <p>15:13:10 25 it. I do have a number of specific questions.</p>	<p>15:15:08 1 and board committees with each meeting</p> <p>15:15:11 2 generally scheduled to last approximately two</p> <p>15:15:14 3 hours. Are the meeting schedules and the</p> <p>15:15:16 4 number and length of meetings currently</p> <p>15:15:18 5 appropriate in light of the time needed to</p> <p>15:15:19 6 conduct the business which is the</p> <p>15:15:21 7 responsibility of the board? And you answered,</p> <p>15:15:23 8 Yes, just barely. Is that right?</p> <p>15:15:26 9 A. Well, we talked about that before.</p> <p>15:15:27 10 Q. So that you thought that either there should be</p> <p>15:15:31 11 more meetings or the meetings ought to last</p> <p>15:15:35 12 longer?</p> <p>15:15:35 13 A. For my purpose, it was very difficult to hold</p> <p>15:15:47 14 meetings longer than two hours, you couldn't</p> <p>15:15:49 15 keep the trustees any longer than that, and if</p> <p>15:15:51 16 you just had this to deal with and not the</p> <p>15:15:54 17 committee meetings, then we should have had</p> <p>15:15:56 18 more board meetings, but you had the committees</p> <p>15:15:58 19 also. So you were putting a big burden on</p> <p>15:16:00 20 people of their free time. That's why I put</p> <p>15:16:05 21 just barely.</p> <p>15:16:06 22 Q. Let me ask you about the section headed Time</p> <p>15:16:22 23 Commitment on the fourth page.</p> <p>15:16:27 24 A. Where are you?</p> <p>15:16:28 25 Q. The page ending in 2247 in the bottom right</p>
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<p>15:13:36 1 THE WITNESS: Okay.</p> <p>2 BY MR. RYAN:</p> <p>15:13:37 3 Q. All right. Let me ask, first of all, is this a</p> <p>15:13:41 4 trustee evaluation form that you filled out and</p> <p>15:13:43 5 signed?</p> <p>15:13:43 6 A. Yes, it is.</p> <p>15:13:49 7 Q. Do you see down the bottom of the first page,</p> <p>15:13:52 8 Board Materials, question 5 reads: If you</p> <p>15:13:56 9 believe that you need additional information in</p> <p>15:13:59 10 order to make informed decisions on particular</p> <p>15:14:01 11 issues which come before the board, is it clear</p> <p>15:14:05 12 to you how to go about seeking that additional</p> <p>15:14:10 13 information? You checked no.</p> <p>15:14:12 14 A. Right.</p> <p>15:14:13 15 Q. Were there occasions where you wanted to get</p> <p>15:14:17 16 additional information from AHERF management?</p> <p>15:14:18 17 A. I'd say more concise rather than additional.</p> <p>15:14:24 18 Q. And who did you go to to try to get more</p> <p>15:14:31 19 concise information?</p> <p>15:14:34 20 A. Well, I went to Sherif, or if it was</p> <p>15:14:37 21 appropriate, I would go see Nancy or David</p> <p>15:14:42 22 McConnell or maybe one or two others.</p> <p>15:14:52 23 Q. Then on the second page under Meetings,</p> <p>15:15:02 24 question 1 reads: The current board schedule</p> <p>15:15:05 25 calls for four meetings per year of most boards</p>	<p>15:16:33 1 corner.</p> <p>15:16:33 2 A. Oh, okay. I've got you. Go ahead</p> <p>15:16:35 3 Q. Time commitment?</p> <p>15:16:36 4 A. Yes.</p> <p>15:16:36 5 Q. Question 1 reads: Approximately how much time</p> <p>15:16:40 6 per month do you spend in carrying out your</p> <p>15:16:44 7 trustee responsibilities? And your answer was:</p> <p>15:16:47 8 One to two hours per day. Right?</p> <p>15:16:49 9 A. Yeah.</p> <p>15:16:50 10 Q. I take it that due to the fact that you were</p> <p>15:16:53 11 chairman of the board and served on, as we've</p> <p>15:16:56 12 seen, many different committees and boards, it</p> <p>15:16:58 13 was your feeling you spent a substantial amount</p> <p>15:17:00 14 of your time on board activities?</p> <p>15:17:02 15 A. Well, I was right in the building, and I was --</p> <p>15:17:07 16 the company was paying for my office, so I</p> <p>15:17:09 17 tried to do it.</p> <p>15:17:10 18 When I said one to two hours a day,</p> <p>15:17:12 19 that wouldn't be every day, meaning some day</p> <p>15:17:15 20 you might spend more than two or three hours,</p> <p>15:17:17 21 and sometimes you might spend less.</p> <p>15:17:19 22 Q. Understood.</p> <p>15:17:19 23 A. Yes.</p> <p>15:17:20 24 Q. And I take it that due to your role on the</p> <p>15:17:28 25 board, you weren't expecting other trustees to</p>